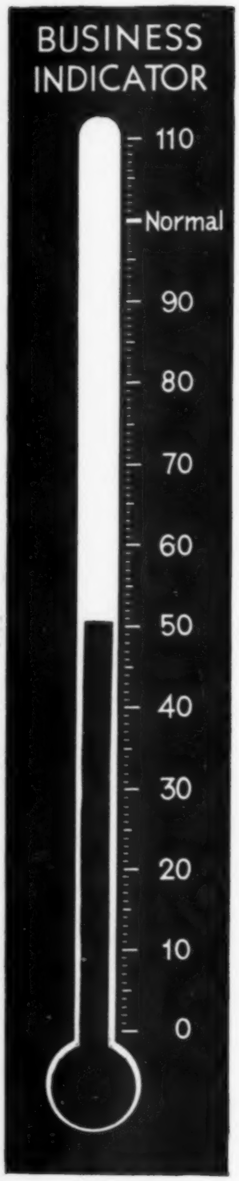
APRIL 19, 1933

THE BUSINESS WEEK:



Soothsayers of business, with all their paraphernalia of charts and graphs, get little attention these days. The prophets with honor are those who profess to divine what measures Washington will presently take, now that the ground is cleared, to rebuild business. There are rumors of inflation, which excite Wall Street, but the kind of inflation we are likely to get is not the kind that tampers with the currency. . . . Even though business waits for a sign from the Capital, spring is upon us, with its never-failing stimulation. There is improvement, though mild. . . . Department store sales in March were not discouraging for the country as a whole, but individual districts reflect the holiday setback. Motor sales surprised even the manufacturers, providing courage for increasing the April schedules, and incidentally giving the steel industry a further boost. . . . Coal and power production are holding fairly well, and freight shipments have veered upward for several consecutive weeks. . . . Folk are using checks again, relaxing their hold on the old sock-full of currency. Empty shelves are being replenished on a rising market by nervous consumers—some induced by the threat of voluntary curtailed production, as in the non-ferrous metals; others by the faint suspicion of inflation in some form; and the grain dealer by the prospect of a small winter wheat crop forecast by the government on April 1. . . . Even the stock market climbed above last year's level, and our business index made up the loss incurred in March. . . . Europe's interest is centered upon the forthcoming conversations in Washington already christened "Roosevelt's Little Economic Conference." Seasonal improvement is felt abroad, as here.

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THE BUSINESS WEEK

APRIL 19, 1933

Recovery: The Next Effort

Roosevelt labors over a program for business revival which is likely to include public works and direct aid to private industry; big bond issues, but no tinkering with the present monetary standards.

WASHINGTON—President Roosevelt and his advisers have been holding conferences for the past 10 days, preparing for the most momentous decision the Administration ever will be called on to make. From a wide variety of suggestions that have poured in upon them, and out of their own knowledge and theories, they are in process of deciding what steps to take to bring about business recovery.

There is nothing to indicate that the President is appalled by this responsibility, but he might well be. He might like time, but he cannot have it. Unemployment is 15 millions, and growing; business has dried up; financial institutions with the people's savings cannot hold out forever against steadily shrinking assets. The welfare of the whole nation is at stake. Not merely the nation, the world is involved, for recovery here is a condition precedent to recovery abroad. Finally, while no one supposes this is held in the foreground, the Administration can not help but be aware its own political fate is at stake. It was put into power to better conditions; if it fails, it will be thrown out as fast as opportunity offers the voters a chance to go to the polls.

The Vital Problem

So far, only one item in the Roosevelt program touches the heart of this vital problem; the President concedes that. Measures so far developed were intended only to be preliminaries which clear the ground or plug holes in the dikes. The one exception is the Muscle Shoals–Tennessee Valley proposal; that is an employment plan; it conforms to the public works theory of recovery.

More public works are in the White House hopper, but the best opinion here is that the President does not intend to rely solely upon public works to provide employment, give purchasing power to consumers, and start up business.

What inner circles of the board of strategy are planning is closely guarded for the present. But bits of evidence lead to the conclusion that the Administration is likely to adopt a plan for stimulation of private industry. Several such plans have been given some publicity—the Rorty and Kent plans among them—and there are other carefully worked out schemes to which the President and the "Brain Trust" are known to have given considerable study.

The best guess is that out of all of them, a composite will emerge. Whatever its details, any such attempt to get men reemployed in the nation's mills, mines, and factories inevitably must involve government subsidy, more or less direct. Private enterprise will not, indeed cannot, use its own remaining shreds of credit to begin production of goods for which there are no buyers. The government credit is good, and is improving as current expenditures are being balanced with income. It may be deduced, then, that the Administration plan is to substitute government credit for private credit and subsidize industry. It is argued that a shot of stimulant at a few important nerve centers of the business structure would energize the whole economic system. It isn't necessary to subsidize all industry. The automobile makers, for example, will make cars fast enough if some millions of men are going back to work elsewhere.

Wide World

COL. RORTY—His recovery program is one of several that the Administration is holding under the microscope.

Washington and Wall Street buzz with talk of an imminent inflation. The impression seems to be widespread that something will be done to devaluate the dollar, remonetize silver, or multiply paper currency. The impression probably gains acceptance for two reasons. The first is that Secretary Woodin will listen attentively and patiently to long expositions of all such proposals. The second is that some people jump to the conclusion that monetary tinkering is the only way to raise the price level—and there is no doubt the Administration is in favor of inflation in the sense of raising prices. So was Mr. Hoover, for that matter.

In the judgment of *The Business Week*, no change in the monetary system is among the early probabilities, nor will there be any such step taken save as a final resort.

War-Time Parallel

Our forecast is an inflation which will almost precisely parallel the wartime inflation. It will, that is to say, be developed by the selling of vast bond issues to yield funds for public works, for stimulation of industry, for direct relief, for whatever other revival plans the Administration may evolve. Eminent financial authorities in Washington estimate that it would be perfectly possible to increase the public debt to $30 billions or so. It now is about $20 billions. The war peak was $26 billions.

No one became alarmed about the soundness of the currency during the war; the man in the street never recognized the financial manipulations of the government as an inflation and it is to be suspected that a good many more highly-placed persons did not, either. But an inflation it was, as a cursory glimpse at the commodity price curve shows. The value of the dollar, expressed in goods, was cut in half.

The process is simple enough. The bonds are sold to banks; the banks exchange the bonds for newly printed currency. There is, of course, a gold cover as usual, which puts a limit on the inflation—but not too rigid a limit. After all, the 40% reserve requirement is not utterly unalterable.

The whole subject of inflation is

much befuddled. The average business man is in a funk when the discussion starts. But because of the imminence of inflation, and because of its extremely practical consequences, it behooves him to find out what it is all about.

What proponents mean when they talk of inflation is that they want higher commodity prices, not merely to make greater profits but also to create confidence that higher prices will endure and thus stimulate employment. Moreover, higher commodity prices would make it possible to pay debts contracted during the former period of high prices.

The opposite of inflation is deflation whereby it is proposed to permit commodity prices to fall to the level at which purchases will be resumed and thus create business activity. If, in this process, debts cannot be paid, then the debts must be written down to new low levels.

Two Methods, One Good

In theory, both methods of procedure arrive at the same point, an increase in business activity. Through deflation, the goal is supposed to be reached by a balancing of production and consumption. Through inflation, it is to be reached by applying an "artificial" stimulus to industrial enterprise.

The chief argument against permitting the inexorable processes of deflation to go on is that we are not certain that deflation, under modern conditions, will ultimately right business activity. It is argued also that the sacrifices are too great to be borne and may disrupt society for a long time. As commodity prices go lower, more enterprises go bankrupt, throwing out of employment more laborers, thus further decreasing purchasing power, creating still lower prices, and continuing the process *ad infinitum*. Moreover, as equities in business enterprises are wiped out and bonds and mortgages are written down, prices of commodities fall because of the lesser credit available, which again brings about further writedowns of overhead, and so on, in a descending spiral.

Quantity Plus Velocity

The theory of inflation is built on the postulate that commodity prices vary with the quantity of money and its velocity of circulation. Inflationists hold that the lower commodity prices with their accompanying industrial disasters are not necessarily the consequence of an unbalanced production and consumption, but are in large part a consequence of inadequate supply of the volume of money and of its low velocity.

The volume of money is made up of two specific items: (1) the circulatory medium such as gold, silver, or various types of paper money and subsidiary coins; and (2) bank credit which circulates in the form of checks. Inflation involves an expansion of either the circulatory medium or credit, or both.

The circulatory medium in this country may be divided into two forms: the base, which is gold, and the much larger paper currency that is built on it. By having a large volume of gold we may thereby lay the base for the inflation of currency, because under present legal requirements we can issue $2.50 paper currency for every dollar of gold (23.22 grains).

Devaluating the Dollar

This bring us to the plan proposed by one group of economists, that of reducing the amount of gold in the dollar. Their program would not permit any exchange of the paper dollar for gold on the domestic market, but the dollar would have a theoretical exchange value in bulk in foreign markets. The gold content of the dollar would then be manipulated to stabilize domestic prices. A decline of one-third in gold content of the dollar, say to 15.5 grains, would permit under the present 40% gold reserves the issuance of $3.87 for every 23.22 grains of gold, or an increase of more than 50% in dollars in circulation. Proponents of this scheme argue that they could increase and decrease the money in circulation and stabilize commodity prices. Domestic prices would remain adjusted to foreign prices, thus preventing such an impasse as exists today, with our prices relatively much higher in terms of gold than commodity prices in countries off the gold standard, so that American manufacturers cannot compete with foreign manufactured goods.

The Cornell School

The chief exponents of this program are two professors at Cornell, Warren and Pearson, who have made extensive price and monetary studies to support their theories. They have a strong following among the farm organizations.

Similar is the proposal to add silver to the monetary base, either in a fixed ratio with gold, which would be bimetallism, or by purchasing a large volume of silver and issuing notes of greater value than the silver. Supporters are silver miners whose profits would be augmented by such schemes and exporters to silver countries who argue that higher silver prices would stimulate exports—say cotton to China. The silver theory is widely discredited.

The chief criticism of plans to change the metallic base of currency is that none of them puts the new money into circulation. There is gold to spare right now; currency could be vastly expanded without changing the law, in fact it has been. And so what?

There are various forms of inflation through the expansion of the paper circulatory medium by the simple device of printing paper money, calling that money good merely because it is put in circulation by fiat of the government. Behind this money is the government,

Globe—Underwood

JOHN DICKINSON—The new Assistant Secretary of Commerce prefers his corncob to official dignity.

but no gold. The proposals in the last Congress to pay veterans with this kind of money or to issue scrip on government bonds, all come into this category. The chief criticism is that there is nothing to limit government issuance of money if neither gold nor silver, in some form, is used to apply the brakes.

Proponents argue that a civilized community can be trusted to expand and contract its currency in accordance with the industrial needs of the country, whereas the inflexible supply of gold pitches the country into periodic depressions, merely because of inadequate monetary facilities.

By Increasing Credit

Another form of inflation is by increasing credit. Our circulatory medium ordinarily consists of $5½ billions of the various types of money and $40 billions to $50 billions of credit which passes just like cash in the form of checks or other bills of exchange. Some $20 billions of this credit-money has disappeared in the last 3 years; reestablishment of this credit is essential before business activity can be revived.

We now come to a group of more complicated proposals to increase credit. Among credit inflationary measures already enacted into law are the following:

(1) The organization of the Reconstruction Finance Corp. was inflationary because it extended government credit to weak railroads, banks, insurance companies, in the hope that an upturn in business would finally stave off bankruptcy. Since there has been no upturn in business, and during the breathing

spell provided by the absence of bank suspensions and railroad receiverships the government did not take the necessary steps for a business upturn, most of this money is probably lost.

(2) The new farm debt plan has one mildly inflationary feature; it permits farm mortgage holders to exchange their frozen paper for United States government bonds which are liquid.

Reserve Was Stalemated

(3) The Federal Reserve banks' purchases of $1 billion or more of U. S. government bonds, thereby replacing bonds with money, were a form of credit inflation. By adding this vast volume of money to the circulatory medium it was expected to increase the amount of credit by about $10 billions. Though the credit was available in the banks, there was no profit in using it, and therefore the credit and cash did not circulate. It had no velocity.

This brings us to some proposals for inflation which do aim directly at the problem of money velocity.

The various proposals for bond issues for public works, including the reforestation act, come under this category. The theory is that a public works program by the United States government will force government credit into the hands of building contractors who will pass it on for raw materials and labor and thus start the wheels of industry.

This proposal has many variants, the most important of them being to use the credit of the United States government not only for direct construction, but rather to use it to stimulate others to go into various business activities.

One variant is that the United States government use its credit as loans to states which are to supplement this credit with their own, thus further increasing the total expenditures. For example, if the United States government would set aside $1 billion for possible loans to states but insist that these states match this with another $1 billion, building activity thus started would be $2 billions. The criticism is that states and cities have little credit left.

The Rorty plan proposes a straight and unqualified subsidy on new construction activities through a 10% bonus payment to contractors submitting approved bids for new capital expenditure with consequent employment of labor. A gift of $1 billion by the United States government, therefore, would bring out $10 billions of construction.

Along the same line is the proposal of Fred I. Kent. The Kent plan is to encourage the resumption of industrial activity by insuring profits. Mr. Kent would, by survey, select industries whose activities have been curtailed because of the falling price levels and extend to them government credit, guarantee them against loss of that portion of the loan which was not met, but, at the same time, tax them 50% of their profit, if any.

Close to this is a plan to subsidize payrolls through the R.F.C. up to a 10% increase over present employment; an addition of 10% to consumers able to buy would quickly roll up a snowball that would double and triple its bulk, it is argued.

Another plan of the same nature is to have a government corporation guarantee to the commercial banks of the country a portion of the commercial loans they extend. For example, if a manufacturer desires to obtain a self-liquidating loan from his bank, the bank would be guaranteed 10% of the loan by the government.

Commerce Deflation

Secretary Roper's orders to cut the expenditures of the Department of Commerce confront him with a difficult task involving political complications.

WHEN Daniel C. Roper gets through with his appointed job of deflating Herbert Hoover's plans for the Depart- of Commerce, business men who have been calling for a slash in the "cost of bureaucracy" will have that slash where they can see it plainest—and where it will hurt most, say some. The South Carolina Secretary who got his respect for the budget as Commissioner of Internal Revenue under Wilson has set $10 millions as the department's contribution to that 25% reduction in the total of government expenditures promised by President Roosevelt. He probably won't dig out quite that much but it is safe to say that he will get a full 25% off the bill, which would bring the department's expenditures for the next fiscal year down to $27 millions.

Everything's Important

Just where the slash is coming from is another question. To readers of the familiar and perennial quips about the department's supererogatory solicitude for even the least of businesses, it looks like an easy job to salvage those services which pay real dividends to the public and let the others go. Mr. Roper is finding it so hard to determine what are the least of businesses and the least important of services that he has had to call in outside testimony, including that of a committee of the National Conference of Business Paper Editors.

The difficulty is that it looks as though the lion's share of the cut will have to come out of the Bureau of Aeronautics and the cherished Bureau of Foreign and Domestic Commerce. The Bureau of Lighthouses can't protect shipping with 25% of its lighthouses dark; the Patent Office is down to brass tacks; the other divisions offer poor pickings. And both

Keystone

BANK REOPENER—Walter J. Cummings, named by Secretary Woodin as his executive assistant, will work out methods to open closed banks.

Wide World

BACK TO WORK—Hundreds of men poured through the gates of the Frigidaire Co. at Dayton when refrigerator and beer-cooler orders necessitated going to 3 shifts. The National Cash Register Co. in the same city also felt the small but definite improvement with the advent of beer.

of the threatened bureaus have leather-lunged clients, including, strangely enough, some gentlemen whose shouting practice has been gained in the hue and cry after bureaucracy.

Reductions on the foreign side of the Bureau of Foreign and Domestic Commerce activities are liable to prove embarrassing at a time when the Administration is promising to whoop up export business to offset increased importations following a lowering of trade barriers. Cuts in domestic service will embroil the Administration with the smaller manufacturers and merchants. The little fellows are already telling Mr. Roper that it's the big ones in a position to get their own trade information who are leading the demand for such cuts and that they are doing it with malice aforethought, goaded by the increasing competition of small businesses that have been getting some of their tips from government bulletins. Since a Democratic cabinet officer has to be very careful about seeming to play into the hands of big business, the Secretary will need all of his political acumen to get those $10 millions.

Thirty Hours a Week

Black bill would make work-spreading compulsory, cut down relief roll, add nothing to buying power.

BUSINESS is rubbing its eyes, wondering how the Black 30-hour bill got through the Senate without anyone's seeing it coming. It had, in fact, been coming for a long while, but its final spurt to a favorable vote was so swift that critics outside the upper house say they never got a chance to present their objections. Since then, they have been making up for lost time.

This measure which, with a few exemptions—chiefly farm and cannery products—bars from interstate commerce all products made in plants that work their rank and file employees more than 30 hours a week, raises some questions that must plague even neutrals, if any.

One that has been emphasized in the widespread discussions subsequent to the Senate vote pertains to the Black bill's value as a recovery measure. There have been claims that it will put 6 million workers back in jobs. With the National Industrial Conference Board showing that weekly hours of work for labor in all industries averaged 32.6 on Feb. 1, 1933, while manufacturing industries were down to 29.6 hours a week (steel plants, 16.9 hours), statisticians find it difficult to support such claims.

Even if a restriction of working hours meant a heavy reemployment, it does not follow that it would mean an increase in purchasing power. Neither the Black bill nor the Connery bill—its companion on the House docket—attempts to impose a minimum wage. Under present conditions, it seems inevitable that an increase in the number on the industrial payroll would be accompanied by a decrease in the amount going into the weekly pay envelope, or a cut in the time of employees paid on an hourly basis. Purchasing power would be shared, not augmented. It might also be redistributed with a further shift from luxury to necessity buying. The result would be the same as that which brought so many criticisms of the voluntary share-work program, to which this plan is a logical successor.

State Industries?

Some manufacturers are concerned about what a 30-hour week would do to them as compared with competitors whose products do not go across state borders. It is highly improbable that all states would fall in with the federal restrictions. Some critics say that it is, on the contrary, highly probable that some states would capitalize "generous" labor laws to attract such regional industry.

Other manufacturers are worrying about the effect of a 30-hour law on their competition with foreign products not subject to such restrictions—either imports or competitive merchandise meeting them when they export to foreign markets. While this question does not become important if the domestic manufacturer meets the situation by lowering wages or cutting hours, it appeared serious enough to cause the Senate to reopen discussion of the Black bill.

Economy Argument

Those who have been trying to figure out just what arguments influenced the assenting Administration senators—since this was not an Administration bill—feel that it was helped to passage by the promise that, even if it added nothing to purchasing power in the emergency, it would at least meet an emergency need in getting men off the public relief funds and transferring the burden to private industry. Even if private industry turns the burden over to its employees by making them share wages with the new recruits, there may still be an argument for this as against the muddle of public relief.

Some of the President's economic advisers are inclined to favor the bill for quite different reasons. They agree with Technocracy's prescription of shorter hours and higher wages and with the diagnosis that ascribes at least a share of our present trouble to too rapid development of labor-saving machinery. Thus, while admitting that a 30-hour week is not a cure, some of the "Brain Trust"

are inclined to think that it might be a good thing in building for permanent prosperity; that, as conditions improve, wages could be raised without increasing work hours.

This is one of the influences which prevented the President from throwing his weight against the Black bill at the start. Another is the amount of steam generated for the measure without Administration support and despite the opposition to some of the Senate's strongest figures.

No very serious effort has been made to defend the constitutionality of the measure. It has 146 years of precedents against it—the strongest of which is that set up by the Supreme Court's decision that Congress exceeded its authority to regulate interstate commerce when it passed the law excluding from such commerce all products made by child labor. Enthusiastic supporters of the Black bill point out that this was a 5 to 4 decision and that only 2 of the justices who concurred in that opinion are now on the bench. But its sponsors are not greatly concerned with what may happen a year hence, which is about as early as a case is likely to be decided if the Black bill is enacted at this time. They feel that the spreading of employment in the meantime justifies the enactment of a measure of doubtful constitutionality.

"Little Economic Conference"

Washington will play host informally to the major powers that will later attend the World Economic Conference. Big problems demand a broad approach. The U. S. will make concessions if others want to "play ball."

"COME over to Washington for the weekend—and bring any of your family who may care to come. I would enjoy chatting with you."

This was President Roosevelt's informal invitation to Ramsay McDonald a week ago.

"Thanks awfully, I'll be there on the twenty-first." This was Ramsay MacDonald's brief but cordial reply. And so the way was paved for talks which will make or break the World Economic Conference, scheduled and postponed now for more than a year.

Forty-Two States Invited

France has since received a similar invitation, and accepted. Forty other states have been invited by the President. There may be more before the spring is over. President Roosevelt is not likely to refuse to talk with any government with which the United States has large scale trade. The first 11 invited were chosen simply because they were key countries in our international trade setup. Agreement with them on a way out of the present trade deadlock would make it comparatively simple to solve the problems involving other countries.

There should be no confusion about the coming conferences in Washington. They will not constitute "the" World Economic Conference. That is still to be held in London, possibly in June. The present talks are being called the "little economic conference." That is because only a dozen or so of the 70 nations which will attend the London conference were at first invited to participate.

As a matter of fact, the Washington meetings will be no conference at all. They will be conversations, usually between only 2 parties at a time, aimed at ironing out bilateral discords. Someone suggested it was carrying out the plan, which Belgium and Holland started, of coming to a bilateral agreement which eventually was extended to include 6 of the small, but commercially important, countries of northern Europe (*BW—Jan21'31*). It is a good analogy, only this time the effort will be made to make it worldwide.

There has been a particular need for an international economic conference since the summer of 1931 when financial collapse threatened Europe. Since that time barriers to trade have risen so rapidly that world trade has come almost to a standstill.

Currency Problems

Trade barriers do not mean only tariff increases, though these are of first importance. They mean also the depreciated currencies in many countries which make it easier for the manufacturers in those countries to sell abroad, harder for the gold standard nations to penetrate their markets, and difficult for both to keep business on a steady keel because of fluctuating currency values.

As this situation becomes more acute, governments place restrictions on the purchase of foreign products. This throws more persons out work, makes the situation worse.

It has been the plan of statesmen to

Wide World

AMBASSADOR WITHOUT PORTFOLIO—Edouard Herriot ceased to be premier of France when he fought for war debt payments to the United States. Without official position, he will be, nevertheless, an important factor in the White House conversations preliminary to the World Economic Conference.

come together in a world conference and try to revive business on a grand international scale. But 70 nations are involved and all have nationalistic prejudices. President Roosevelt has decided to take the initiative and deal with these prejudices individually. It is hoped that the problems can be pretty well settled in Washington, and that the London meeting can be largely a "confirmation" conference.

Price levels (it is agreed that commodity prices must be raised), currency stability (including the gold standard), tariffs, and war debts will be major items on the agenda. Production control will also be discussed, particularly in relation to agriculture, and oil.

There are many more possibilities for success now than there were a year ago. Most important new factor is the admission by the Roosevelt Administration that the United States must make important concessions. Tariffs, for example, must be reduced so that foreigners can sell us their products, pay their bills.

War Debt Bargains

War debts will need to be "adjusted," though Washington is going to use them as a bargaining weapon to get trade concessions, sometimes for us, sometimes for customers whose markets have dried up.

Whatever the value of the war debt obligations as a bargaining weapon, they no longer are as important as currency stability. When the United States placed an embargo on gold exports (which put us technically off the gold standard), it literally gave the rest of the commercial and financial world a case of the jitters. Britain, and the 30 or more countries in the "sterling bloc," seemed about to lose the export advantage of a depreciated pound. France and Holland and Switzerland doubted if they could maintain the gold standard without the United States. There is a temporary "arrangement," but Washington can easily break it if the rest of the world refuses to "play ball." Currency stability, Washington is determined, must have wider foreign support. The first visitor, MacDonald, can contribute importantly to any plan to return world currencies to a stable basis.

We Have a Weapon

The United States has another weapon, the importance of which is not generally recognized. This country has foreign exchange restrictions which have been interpreted most liberally since they came into force during the banking holiday. So far they have been applied only to avoid speculation. "Complete control," however, is possible without any further legislative action. Since the United States is a major world market, foreign statesmen are likely to think twice before they give it up because of extreme nationalism at home.

The situation is grave everywhere. The war threat in Europe seems a little less acute than a few weeks ago, but otherwise there are no signs that economic nationalism has abated. But with Washington ready to make tariff concessions, and possibly debt adjustments, perhaps the vicious circle can be broken. Certainly the threat from Washington of monetary manipulation has stirred the rest of the world to the importance of the "little economic conferences" in Washington. Much depends on their results. The President's informal approach seems already to have won the approval of the prospective guests.

Hitler's Labor Policies

Germany starts labor reorganization on Mussolini model of a "corporate state." Nazi unions break monopoly.

BERLIN—What's Hitler going to do? This is almost as popular a question in Germany as it seem to be abroad, though Germans are less alarmed over the prospect than most foreigners seem to be.

Indications of Hitler's labor policies are beginning to creep out.

Trade union policy came first. This problem is no more important than it is delicate. The government seems to be divided into 2 camps.

One group—the more moderate—is aiming at "enfranchisement" of the Nazi trade unions. Heretofore, only trade unions belonging to one of the 3 main political groups have had a right to conclude collective wage agreements with employers' organizations which, if certain conditions are observed, are binding for the entire branch of industry or trade. These 3 groups are the "free unions," made up of workmen in the Social Democratic party, the Christian Social Unions, composed of members of the Catholic parties of the Center, and the independent democratic unions.

This moderate wing of the Hitler government would break into this "monopoly" of the existing trade unions with a fourth group composed of the Nazi unions which have not, until now, played any important role. Until very recently, in fact, the Nazi unions included only about 100,000 workers, compared with 5 millions in the 3 other groups. After making this entering wedge, the Nazis would somehow get control of the 4 groups.

The more radical Hitlerites want to tackle the situation along Fascist lines. In fact, they want to cultivate the Mussolini system as they see it now, without waiting to go through the intermediate stages which Mussolini actually developed in Italy. If Germany followed this group, it would mean that the Nazi unions would be granted a monopolistic position right away. As in Italy, all workmen would be invited to join these unions, but any worker who refused to join would, nevertheless, have to pay membership fees.

Evidently unable to agree on a final policy, the government this week adopted an interim course. A governmental decree breaks the "monopoly" of the 3 old labor organizations, and enfranchises the Nazi unions on exactly the same terms. Beyond this, nothing has been done to curb the power of the old unions or antagonize the workers.

Incidentally, these Nazi unions showed some quite remarkable gains in elections of "factory committees" in the Ruhr industry last week. They secured 29% of all votes, more than their strongest opponents.

There was another step toward reform. When the German republic was established through the Weimar constitution in 1919, a Federal Economic Council was set up. It was planned that this group was to function as an "economic" parliament, to complement the "political" parliament. Its functions, however, were to be solely consultative. According to the original plan there were to be 326 members representing labor, the employer, and the consumer. There were also to be a number of economic experts chosen by the government.

This Council never was very active in Germany. In the last few years it was almost never consulted.

Hitlerized Council

Hitler plans to revive the Council but with certain modifications. It is to be made more elastic and capable of quick and productive work by reducing its membership to 60. In keeping with the dictatorial policy of the government, these members will not be elected but will be nominated by the government. It is the intention of Hitler that the reorganized Council will, at some later date, form a nucleus of the new "corporate state."

There are many differences between Mussolini's Italy of 1922 and Hitler's Germany of 1933 but it is obvious that Hitler keeps Fascist Italy before him as a working model.

At least a part of the enthusiastic rush of German workers to join the new Nazi unions is due to the urge to get "tied up" with the victorious movement in order to improve their chances of getting new or better jobs.

Keystone

MILK BILL—Governor Lehman signs the Pitcher Bill as its author, State Senator P. A. Pitcher, looks on. New York's experiment in milk price control may soon be followed by other states. Ohio has one under consideration.

Oil, Very Crude

The Administration would like to do something for oil, too, but hesitates to step into an unfortunate situation.

THE present petroleum situation is about as thick, opaque, and slippery as the crude itself, and smells about as bad. To civil war, overproduction, underconsumption, taxes and evasion—the usual impurities of the industry—must now be added a little political mud.

Internally, the industry is divided against itself into big companies and little companies. The big companies have heavy investments in cracking processes, pipe lines, service stations, and other distribution machinery. The little fellows have no such advantages, and feel they should be protected from those who have.

To the independents, therefore, proration is a scheme to destroy them to make a big company monopoly. They deny the existence of overproduction, in fact; they believe that limitation of production would enable the big companies, through their superior storage facilities and crude imports, to starve out the smaller independents who have no storage, no oil imports, and too little financial or marketing strength to stand the strain of a shutdown.

To the major oil companies, however, proration is an absolute necessity if the already shaky petroleum price structure is to be saved at all. They believe that production must be interlocked with consumption; and with consumption of gasoline, the biggest end point of all oil merchandising, still falling off, they believe in control most fervidly.

In the main, the big companies have stuck to the gentlemen's agreements which have been the foundation of all proration efforts in the past. They believe that petroleum, like steel, is a big company business, and they look upon the independents as the troublemakers. Certainly, some of the shoestring operators have been responsible for the wholesale evasion which is generally credited with being the biggest cause of low prices.

"Hot" oil, illegally produced, and marketed without benefit of tax payment, is at the bottom of price cutting. Increased state and federal taxes and inadequate enforcement have made gasoline bootlegging possible and profitable. The big companies, therefore, are as much concerned about strict enforcement as production control.

Late last month, the Administration took its eyes from the bankers and the farmers long enough to look anxiously at the oil industry. Secretary Ickes of the Interior called a meeting of the authorities and representatives of the various oil states and interests. Present also were committees from the American Petroleum Institute and the Independent Petroleum Association of America.

Placing the Blame

Secretary Ickes blamed the lack of observance of the state conservation laws, the irregular distribution of unmarketable production, and widespread tax evasion, for the present condition of the industry. He pleaded for common sense; reminded his hearers that they were dealing with a most essential natural resource, limited in quantity by nature, which is dwindling because of unscientific management, that there must come a control of production.

The visiting independents assured Mr. Ickes that he was misinformed. Organized as the Independent Petroleum Association Opposed to Monopoly, headed by John B. Elliott, California oil producer, and J. Edward Jones, New York oil broker and petroleum statistics publisher, and marshalled by Wirt Franklin, Oklahoma oil man and longtime champion of the independents, the dissenters presented their case and made their exit.

The remaining oil men elected a Committee of Fifteen which recommended that the states close all flush pools until Apr. 15, which would have amounted to two weeks.

Little Fellows' Views

The new independent association protested vigorously. "The only purpose of such a suggestion," said Chairman Elliott, "is to provide a 15-day oil supply for the consuming public from major company storage and imports at the expense of the independents. What is needed in the oil industry is an immediate and thorough investigation by the federal government of the influences and moving causes behind the effort to eliminate honest competition; the arbitrary fixing of prices of crude oil and its products by the oil monopoly; the control, without any effective regulation or fixing of transportation rates by the federal government, of interstate pipe lines; and the long continued efforts of the oil monopoly to deceive public officials and the public as to the true state of affairs in the oil industry."

In a long brief laid before Secretary Ickes, the Independents Association asked that the federal government keep its hands off; leave the oil industry to

the states; use the anti-trust laws against the big companies; put a tariff on oil; and divorce pipe lines from refineries, distribution and production in the petroleum industry.

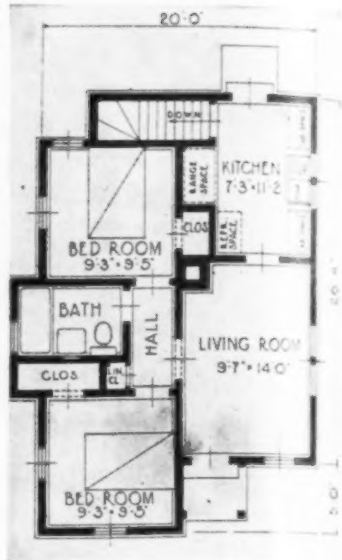
All of which puts the Administration in a tough spot. Mr. Roosevelt would like to do something to stabilize oil, he recognizes the necessity of keeping so large and important an industry from going smash. It should here be recorded, however, that the embattled independents who walked out of his conference are some of them the same men who helped to put him across in California. John B. Elliott and J. Edward Jones were McAdoo's lieutenants in the last campaign.

The Independents are playing clever politics. By shouting, "Monopoly!" always a potent war cry in times like these, they can block every move of the big companies. And by demanding divorce of pipe lines from the big companies, they hit the major interests very hard indeed on a most tender spot.

For pipe lines are an adjunct of the refinery rather than a common carrier. They do not own, but are owned by, the oil companies. Dr. Walter M. W. Splawn, investigating them in the course of tracking down holding company control of public utilities for the House Interstate Commerce Committee, came to the same general conclusion as most of the industry: that divorce of pipe lines from the oil industry is not practicable.

Nevertheless, the President was a shrewd enough politician to include, in his letter to the 17 oil state governors, mention of the proposals of the Independents and approval of their suggestions in regard to pipe lines. More important, however, he put the whole matter of enforcement up to the states, saying only that he would recommend legislation under the Interstate Commerce Act to aid the enforcement of state laws.

The end point of the whole petroleum situation seems to be this brutal question: Which is more important, the little independent companies or the economic administration of the natural resource itself? It seems certain that the Administration is not going to give the answer.



THEME—The single floor plan on which the 4 Sears houses are built features convenience and simplicity.

Model T Home

Sears, Roebuck offers a new line of small houses at a price which competes with even present low rents.

WITH all the talk about the impending importance of housing as an industry and all the experimental work with new materials and new forms, there has been little done toward entering the mass market for homes.

Like the automobile industry, which talks about "enconomy cars" and "bare transportation," yet continues to glue on the gadgets, the home-building industry experiments with steel and cement, panels and paint, factory fabrication. Most of these experiments are made from without the industry, are aimed at a sometimes secondary market for the materials they represent rather than the primary market for homes.

All but a few end up with a price tag in 5 figures; even the lowest priced barely break $5,000, which makes them definitely middle-class at present income levels.

Defining the Market

The Business Week's study of the American consumer market (*BW—Apr 27toSep7'32*) showed that 85% of the gainfully employed made less than $2,000 a year in 1929. Since then, the mass market has suffered great casualties in the war of deflation. If what the country needed in the good old days was a good $5,000 house, what it needs these days—or can hope for in the immediate future—is something plain and weatherproof for about $2,500, or less. In view of all this, the low-cost homes just announced by Sears, Roebuck are especially interesting. The world's biggest home builder believes there is a market for a Model T house. It has discovered, in a survey among its 12 million customers, that "the comforts of home" need not include "all modern improvements."

Necessities Come First

"We found," said E. R. Dibbs, general manager of the home construction division, "that approximately 60% of the homes throughout the United States are stove-heated, and that tens of thousands are without modern plumbing or electrical installations."

To meet this market for low-cost housing, David S. Betcone, architect for Sears, Roebuck, designed 4 houses which could be sold, erected without basements, for as little as $1,928, including plumbing and electric service.

Farmers who are handy with tools, or carpenters with plenty of time and a little money on their hands, can buy the materials alone for $598 f.o.b. Chicago or Port Newark.

Sears will build the same house with basement for furnace heating plant and laundry, plumbing to provide bathroom fixtures, kitchen sink and laundry trays, and complete electrical system with lighting fixtures installed, for $2,482 in the Chicago area, not over $2,500 anywhere east of the Mississippi and north of the Ohio.

Factory fabrication of the lumber is an important part of the plan. There is a rafter machine, for instance, which does 3 things at once, beveling both ends and cutting the notch for the top plate almost instantly. Joists, sills, studs, plates, and rafters are measured, cut, and marked according to plan at the mill, as in steel construction, for economical assembly on the site.

The Sears, Roebuck policy is "everything you need to build, including money." Last year, on its regular line of standardized houses, Sears would put up 75% of the money. This year, however, a down payment of 40% is required. But the appraised value of the lot, if free and clear, and well located, is still accepted as part of the owner's share.

$15 a Month

On a 60% first mortgage, monthly payments run as low as $15.40 over a period of 15 years. This in itself appreciably lowers the cost of housing for the average citizen. There is no refinancing every few years, with the usual bonus, no second mortgage.

The 4 designs, 2 "Colonial" and 2 "English," are based on the same floor plan. All have a living room, 2 bedrooms, kitchen, and bath. When a cellar is desired, a closet near the back door provides a place for the stairs.

Sears, being merchandise-minded, has not experimented with new materials or new architectural forms. The new houses are built of the traditional materials, without benefit of chromium

handrails or steel deck roofs. The people who will buy them like their roofs with peaks and their furniture in "suits."

This selling of stripped-down houses fits in with the current desire to buy as little as possible. The terms are sufficiently tempting to establish a market: $15 a month is cheap rent, even these days, and there is of course the equity to consider. For Sears, the move has possibilities of future profit; selling the shell now builds a market for equipment later.

Store Profits

Round-up of reports shows that a few department stores made a profit, even in 1932; that more have been getting down to fighting weight.

THOUGH department store sales took a splashing nosedive during 1932, net profits were turned in by 8 organizations operating 16 of the 141 department stores covered in a compilation by *The Business Week*. One, Bloomingdale Brothers of New York, actually showed an increase in net.

Sales of 138 reporting stores were $603 millions in 1932 against $831 millions in 1931, a decline of 27.4%. But they had to work almost as hard as in the previous year since the number of transactions showed declines ranging only from 2½% to 5.7%. To the expert operator this indicates that the consuming public arrived practically at its minimum purchasing level in 1931, and may be expected to buy at an increased rate whenever it can.

The statements of 33 stores, which provide comparable data, show how seriously the 1932 operations cut into resources and surpluses. In 1931 only 12 of those stores went into red ink (for $4,688,000). Last year 8 more joined the procession and the 20 chalked up a loss of $11¼ millions. The net profits of the remaining 13 were cut in half.

The efforts of management to pare down expenses have extended into every phase of the work. Substantial savings have been effected through the reduction of inventories. For instance, a tabulation of the inventories of 76 stores shows a reduction of 26.7%. Since these are figured at cost, a comparison with the 27.4% decline in dollar sales volume indicates a material increase in the rate of turnover.

Only one strictly chain department store organization, The May Department Stores, finished the year with a profit. Aggregate sales of the nationally operating 27-store Hahn chain and the 29-store Consolidated chain dropped 41% below the 1931 total while their net losses jumped from $689,000 in 1931 to over $4½ millions in 1932. No single independent department store records sales or operating losses approaching these percentages—which is not a good argument for chain organization in the department store field.

The performance of the members of the Federated Department Stores (interchanging information but not centrally operated), stands in sharp contrast with that of all others. Not one of the Federated stores lost money in 1932. Although competitive conditions forced their net profits to 34.7% less than in 1931, their sales were only 19.5% lower, their surplus shrank but 17% and inventories at the end of 1932 were only 14% lower.

There have been encouraging signs of an upswing since the end of the "banking holiday." Monthly sales records are practically never published in this field, but United Parcel Service, Inc., providing delivery service for hundreds of department and retail stores, reports recent substantial increases over comparable 1932 records in number of units delivered. Sales events staged by R. H. Macy & Co. in connection with its 75th anniversary are called "exceptionally successful." The "no-profit" sale staged by Gimbel Bros. at Milwaukee, Pittsburgh, Philadelphia and New York (*BW—Mar8'33*) established some new highs.

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—AND VARIATIONS—The 4 different homes built on the same floor plan which are Sears, Roebuck's bid for the Model T home market.

Automobiles

Chrysler's answer to the Standard Chevrolet is a de luxe Plymouth.

WHEELBASE isn't everything, perhaps, but Plymouth has discovered that as long as the public thinks it is, it is better to give the public what it wants than try to change its mind by logic. Hence, according to the wise ones in the trade, the appearance now of a new, longer Plymouth.

The new car is 4 inches longer between the hubs, measuring 112 inches, which puts it up with the Chevrolet and the Ford in frame length. Prices range from $20 to $30 higher than the corresponding models of the regular line. The long wheelbase business coupe sells for the same price as the short, so that fleet users may take their choice.

In the new long line, the hood has been lengthened somewhat to correspond; so have the running boards. The radiator sweeps down a little less sharply. Interior finish is better, and an all-silent transmission is a new selling point in this price class.

Super Shell

The spring motoring season brings forth increased gasoline competition.

BY the simple process of inserting the word "Super" in front of the word "Shell," Shell Eastern Petroleum Products begins the spring season with a burst of merchandising. Shell stations have broken out in a rash of banners, pennants, posters, and 4-foot red arrows proclaiming the virtues of Super-Shell.

The new gas is announced as a premium fuel at the regular price. The trade sees it as a good regular, or second grade gas, comparable to the same grade in other brands, perhaps a little better, but not a real premium fuel. Significantly, Shell continues the ethyl mix as first grade, presumably a super-Super Shell. The "Heavy Duty" brand will continue to be the "fighting gas" for certain competitive situations.

Beer's Honeymoon

Everyone underestimated America's Gargantuan thirst; brewers and business men in many other lines wear broad smiles just now.

SEEN through a beer glass, the world takes on a golden hue. The resurrected brewing industry underestimated America's accumulated thirst. It enjoys, temporarily at least, the rare distinction of struggling with a demand that taxes supply facilities. Nobody believed that Congress could act with breathless speed on so contentious a subject as 3.2% brew, nor could anyone foresee the enthusiasm with which the country would embrace what is, to some, an ignoble experiment. Just now brewers, distributors, retailers are too busy to worry about the ultimate level at which demand will stabilize after the tidal wave of Apr. 7 recedes.

Legal Squabbles

The arrival of beer found many legislatures still tied in knots. States and municipalities wanted all the revenue they could get, politicians wanted control for the benefit of their machines. Friends of beer and yearners after hard stuff hoped for strict measures that would aid rather than hinder repeal of the 18th Amendment. They are concerned, drys are secretly pleased, over results in several states. New York's Governor Lehman wanted a bill which concentrated all authority in a state commission. What he got was a law dividing responsibility between a state and local bodies. Beer may be sold over bars "but not in saloons"—whatever that may mean.

It may be that the brewers themselves have learned a lesson. Adroit exploitation of saloon evils put over prohibition. Often barrooms were directly or indirectly controlled by brewers. Twenty-four big beer organizations in the New York State Brewers' Association have promised the public to be good. Their credo is that the business of such companies is to make and distribute a good brew, not to devote "any part of their resources to the establishment or maintenance of retail places of sale." They think future legislation should continue the "distinction between beer and distilled liquors."

Mild Brews Sold

Beer came in with a whoop but the industry is proud of the fact that there were no morning-after headaches. One reason was the mildness of the brew. Chicago celebrants were disappointed to learn from a federal chemist that no 3.2 beer was produced there. The average of 7 brewers was 2.8%. This conservatism applied in other cities.

Congress passed the Beer Bill so suddenly that brewers were unable to have ready a properly aged beer which was up to the maximum. They put out the brew already in their vats and this had been prepared under the near-beer restrictions. Since nearly all alcohol must be taken from near-beers, the brewers produce it with a very small percentage of kick. (A consideration that probably will keep brews well under the limit is fear of overstepping the law with possible loss of license.)

Inauguration of the new beer brought out one fact that is large with promise—people drank it and liked it. On the first day's sales it is estimated that the federal government collected $7\frac{1}{2}$ millions from $1\frac{1}{2}$ million barrels (of 31 gal. each) in 21 states and the District of Columbia. Total of the day's revenue to federal, state, and municipal governments was put at $10 millions. To assuage the Gargantuan thirst of New York City brewers in the first 2 days doled out 160,000 barrels. Retailers had to limit the sales per person. Quantity buyers who went to brewers for extra supplies were often met with "No more beer" signs.

Real problems facing the brewer are those of storage and delivery. Beer must be aged in glass-lined tanks for from 6 weeks up. Many existing breweries do not have sufficient storage facilities for this period of storage and it remains to be seen whether they will risk the fair names of their products by rushing them out in a green state. A German claims to have perfected a formula called the Nathan Process which cuts the ageing period, claims to produce good beer in 10 to 14 days. The conservative American brewmasters have not taken kindly to the idea, but demand for fast ageing may alter their views.

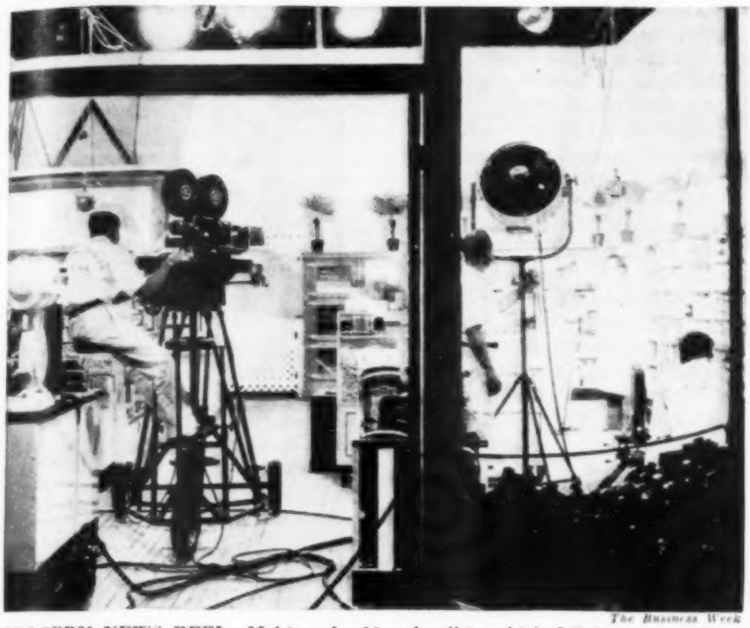
Shortage of Kegs

A real shortage of beer kegs is holding down deliveries. In 1919 some 19 million kegs circulated in the United States. About 12 million kegs would be needed if annual production reached 40 million gallons. Only 200,000 kegs are said to be in circulation now. In the old days, an oak stave was supposed to weather 7 years before it could aspire to inclusion in a beer container. Arkansas and other hardwood districts are opening mills to start new production. It remains to be seen whether fast kiln-drying can produce speedily a satisfactory keg. Meanwhile different metals are rushing into competition with wood and with each other for the barrel market. They include rustless steel, aluminum, nickel, and nickeled steel.

Hotels have been galvanized into sudden activity by the proof of the new

The Business Week

NOT THE SAME—The new beer may be the same as the old, but the truck is quite different. General has devised a miniature "Streamline Jumbo" which makes the new welded steel truck roll quietly.



The Business Week

GROCERY NEWS REEL—Making the 18-reel talkie which I.G.A. uses to show members how to build volume in food sales. A completely equipped I.G.A. store was among the sets for what is said to be the biggest industrial movie ever made.

beer's popularity. Ahrens Publishing Co. estimates that $100 millions will be spent immediately by hotels and restaurants to provide suitable quarters for indulgence. Its survey declares that the 23 states where beer is legal will spend $47 millions for building and decorating materials. Labor accounts for the rest of the estimate. This expenditure will stimulate wall and floor coverings, paint, decorative fabrics, furniture, cabinet work, metal installations, lighting, refrigeration, and air conditioning.

Vibrations of this demand already are heard in sales offices. The Brunswick-Balke-Collender Co. returns to its ancient activity on bars and accessories. There is strong competition from old bars that are coming out of the cobwebs once more to engage the elbows of the convivial. It is too early to tell whether sentiment of the old-timers will revive the popularity of carved mahogany as against the simpler metal-trimmed counters seen in smart speakeasies and on modern liners. International Nickel reports a deluge of inquiries for its Monel.

Here and there a somewhat diffident stranger sidles into the picture. A New York firm had an inquiry from a Michigan plant which supplies church pews and pulpits; it was thinking of putting in a side line of beer bars. Shaw-Walker, known all over as a maker of filing cabinets and office furnishings, is proud of its all-welded, Best-Bilt steel beer cases. Chase & Revere are putting out attractive variations of mugs, pitchers, trays, bottle carriers, cheese and pretzel bowls.

Voluntary Chains

Like the centrally owned chains, the "voluntaries" have profited by massed buying, centralized sales promotion.

THE mystery of the voluntary chain has been the mystery of all types of chain store systems. They quote prices that are lower than those an independent retailer could hope to meet and still stay in business. They advertise more extensively, merchandise more intelligently and infinitely more aggressively, keep windows and store fronts attractive and inviting, have store interiors arranged for the most efficient and rapid service.

Voluntary chain management has been loath to tell what it is doing. Operating technique is a valuable stock-in-trade which must be jealously guarded lest it become the weapon of a competitor. For that reason it has taken the American Institute of Food Distribution the better part of 3 years to complete a nationwide study of voluntary chain operation. The report just published provides a wealth of new, interesting, and rather intimate data not included in previous surveys (*BW—May18'32*), and supplies effective answer to the question "How do they do it," so often asked by independents and consumers when chains or voluntary chain members advertise low prices.

Fundamentally the voluntaries have followed closely in the footsteps of the centrally owned chains, except that the self-interest of individual owners of the various member stores has been capitalized to the utmost. Originally loosely bound, voluntary chains have grown into closely cooperating, highly efficient organizations with each owner-member carrying out the sales-building schedules, supplied from headquarters, with employee-like faith.

Membership Dues

According to the report these independent food merchants pay from $8 to over $20 a month for membership, with a weekly payment of $3.50 appearing the most popular figure. For this they receive specific services of various kinds. In a group of 413 voluntary chains with 58,085 member stores, 41,893 independent merchant-members receive the benefit of regular advertising in newspapers, 47,462 distributed weekly handbills, 42,559 received window posters, and 5,345 profited from regularly scheduled radio broadcasting. In addition, 111 of those groups employed supervisors to cooperate with their 17,946 members for better results.

Aside from these activities, productive only of intangible benefit to members, many voluntary chains are found to have used the massed buying power of their united membership with telling results on the cost of some of the staple lines as well as perishables. Savings thereby obtained ranged from 5% to 23% on crackers and biscuits, 5% to 15% on bread, 5% to over 25% on fruits and vegetables, 5% to 10% on meats, 5% to over 25% on store and delivery equipment.

The Label War

Of particular significance is the report on the use of private labels. Voluntary chain managers appear to be almost unanimous in the opinion that profitable operation is possible only if certain lines of staple merchandise are offered under controlled private brands. They claim that nationally advertised brands are too easily and too frequently made the football for price wars; that to maintain a satisfactory average of gross profits, private brands on which price and profit margin can be controlled must be promoted. In a group of 255 wholesaler-sponsored chains, extensive lines of merchandise under private label were reported by 156, while 53 had a limited line and only 12 used no private brands whatsoever.

Proponents of private brand merchandising have found the last 3 years particularly advantageous to their expansion, since established manufacturers of food products have been anxious to bolster up their sales volume by supply-

ing goods under private label. Authorities in this field maintain that as consumer buying once more reaches more normal proportions, particularly on long-established brands, certain classes of products will not be as readily available under private label.

Food Institute officials who have been in constant contact with the study remark that the swing of voluntary chains toward private label merchandise has passed its zenith and that some important organizations are systematically reducing the number of items carried under private label in favor of the more readily sold advertised brands.

They also point to the fact that since the tables of the report were compiled a slight increase in the number of voluntary chains has occurred, while the number of member units has now passed the 90,000 mark, with the greatest increase in numbers recorded by the wholesaler sponsored groups. One such group, the Red and White stores, has become the largest voluntary chain in the field, being credited with 6,482 stores, while the Independent Grocers Alliance, previously credited with 10,000 stores, appears to have 6,000 members.

Some observers claim that a definite decline of its popularity in the food field is responsible for the fact that the I.G.A. management is actively promoting similar organizations in several other lines of retail trade.

Wheat Prices

Poor crop prospects have something to do with the 20% advance in 3 weeks but speculators depend more on Washington and inflation.

GEORGE N. PEEK—He is slated to administer the farm bill.

AN advance of 20% in the price of wheat within 3 weeks after the bank holiday is probably one of the most curious factors in the present hectic business situation. When the Chicago Board of Trade closed Mar. 3, May wheat was selling for 48¢ a bushel. When the exchange opened, a fortnight later, wheat opened at an advance of 5¢. During the next few days further advances to 56¢ were recorded, followed by the inevitable reaction to 50¢, the closing price Mar. 22. But from then on to Apr. 11, wheat continued in a steady advance to 58¢ for May delivery, an advance of 10¢ in 3 weeks.

Three distinct factors have contributed to this rise in price: (1) the poor condition of the winter wheat crop; (2) the probability of further advances because of the imminence of the farm emergency bill; and (3) the fear or hope of inflation.

The winter wheat crop as reported by the Department of Agriculture is almost 40% below normal with an actual outlook for harvest of 462 million bushels against the 5-year average of 589 million bushels, a drop of 20% below the 5-year average. The drop in production is due to drought conditions which prevailed throughout the winter wheat area when seeding was going on last fall and which are still unrelieved in much of the territory. In consequence, abandonment is exceptionally high. This crop loss of 20% is only partly offset by an increased acreage of 2% in intended plantings of spring wheat.

On this basis, we are likely to have a total production of wheat for 1933 of around 650 million bushels, scarcely sufficient to supply normal domestic consuming requirements. Normally such a drop in production would justify a forecast of high wheat prices, but the situation is complicated by the fact that even so sharp a drop will create no shortage either in the domestic or world market. Including holdings in mills and elevators, domestic supplies are estimated at 519 million bushels, by themselves almost sufficient to supply more than three-quarters of domestic needs.

Another factor complicating the price outlook is the disparity between domestic and world prices. May wheat at 58¢ in Chicago, is actually 8¢ or 9¢ higher than wheat in Liverpool. When to this is added the customary freight differential between Chicago and Liverpool it is quite obvious that domestic prices in the United States are wholly out of line with world markets. This is further borne out by the almost vanishing exports of wheat. During February net wheat and flour exports totaled 579,000 bushels against 8 million bushels in February 1932, 9½ million bushels in 1930, and 9 million bushels in 1929.

In part, the advance is based upon the expected higher prices in consequence of the farm emergency measure which might put out of production probably 20% of the present acreage. But the bill is drawn so loosely and gives the Secretary of Agriculture such wide powers that there is no assurance that the allotment plan or the land leasing plan will be made effective on wheat. The Secretary of Agriculture strongly favors the allotment plan and the probabilities are that he will put it into effect, but again it is not definitely known how conservatively or how radically the plan will be administered. Will he put 5% or 10% or 20% of the acreage out of production? Will he permit domestic wheat to advance, or will he reimburse the farmers through allotment certificates, or will he do both? Even with good intentions can he control prices? These are the questions that still remain to be answered. If the acreage reduction is to be 20%, plus nature's help in the winter wheat area, then we may look for a total production that will be much below domestic requirements, and which will ravenously eat into the huge surplus which we are now carrying. On that basis, farmers may expect to receive not only cash payments on the allotment certificates but a sharp increase in the price of wheat. How much that increase will be is anybody's guess.

Finally, the recent increase in wheat is in part the consequence of the talk of inflation, a flight from the dollar into commodities. In so far as this is a speculative movement and the buyers of this wheat are not consumers but will later sell it again, the rise in price at this time is wholly artificial and temporary and will be offset when tenders of delivery are made and this speculative wheat comes back on the market.

The most important factor that should be kept in mind with respect to wheat prices is that the present domestic price level does not permit wheat exports. Therefore, unless there is further reduction in acreage, even the low crop now indicated will add to the domestic surplus.

Activated Carbon

New absorbent with vast surface solving water problems.

OUT of chemical research, during the war, has come a new process for purifying city water. It is a far cry from gas masks to a pumping station, but a recent check-up shows that in the last 2 years more than 400 water-treatment plants have adopted the use of activated carbon for removing undesirable tastes and odors. A variety of commercial applications have been discovered.

The use of ordinary charcoal for removing colors, odors, and tastes from liquids has been known since the fifteenth century. Activated carbon is prepared in either a granular or a powdered form. Impurities are attracted to the external and internal surface of the carbon particle. The structure of the substance is such that one cubic inch will present an external and internal surface of 20,000 sq.yd. An ounce contains 2,000 billion particles. A pound will treat 100,000 gallons of city water and absorb the bad tastes and odors caused by algae, the microscopic vegetable growths in all reservoirs. The carbon is removed in the filter.

Liquid chlorine is generally employed to sterilize drinking water and has made city water in the United States the safest in the world; but chlorine has the disadvantage of bringing out the unpalatable taste of the oily secretions of algae, which has made the water of many communities unpleasant. Now activated carbon is overcoming this problem.

Meanwhile, activated carbon is being used in new methods for purifying cane, beet, and corn sugars; corn, maple, and sorghum syrups and honey; vegetable and animal oils. The dry-cleaning industry is employing it to restore cleansing solutions after contamination from use. It is applied in sewage treatment and in many processes of the chemical manufacturing industry. It is finding new possibilities in absorbing odors in air conditioning systems and also in household refrigerators, so that the onions and the butter may lie down together. Here is another romance of the new industrial chemistry.

Coal Costs

Rail study of coal rates may be derailed by I.C.C. action.

IT looks as though the action of the Interstate Commerce Commission has relieved the railroad presidents' traffic committee of a lot of work. In reply to clamor from the operators for reduction of freight rates on coal, in an effort to reduce the delivered price, the roads recently announced an investigation of both bituminous and anthracite. At the same time a reduction was made on anthracite shipments west from the Pittsburgh–Buffalo line. But in face of a general rate investigation announced by the I.C.C. the railroads' study will probably go by the board.

Out of it all, transportation costs are beginning to take their place in the thinking of coal men as factors in the local price competition between fuels in industrial and domestic service. As a reflection, the Iron Fireman Manufacturing Co. has developed a fuel cost survey that presents a comparison of lump and mechanical stoker coal with oil and gas in 40 centers throughout the country, reduced to the common base of thermal units. It prompts the hope that coal will some day begin to be merchandised instead of being dumped in the bin on demand.

The Business Week

LESS ROMANTIC, MORE PROFITABLE—The Denver mechanical gold pan was developed to replace slow hand-panning, makes possible operation in placer deposits too lean to pay wages at hand-panning. Complete with gas engine it weighs 550 lb., costs $160. This spring and summer, many more amateur (and professional) prospectors will work over the low-grade deposits.

Coal Research

Bituminous operators open a laboratory. Consolidation Coal joins their new sales agency.

WITH the "new freedom" come to them through the recent decision of the U. S. Supreme Court in the Appalachian Coals, Inc. case (*BW—Mar22'33*), the bituminous operators are stepping out. Having been permitted to create a cooperative sales agency, they are now getting a Delaware charter for a research organization such as the anthracite industry boasts.

Bituminous Coal Research, Inc. has been set up. The actual research is expected to be done by Battelle Memorial Institute in Columbus, Ohio. This move has been under discussion for some time and had been decided upon before the court gave the operators the highball (*BW—Feb15'33*). But it has the effect of registering new vigor and purpose.

Meanwhile Appalachian Coals, Inc. has been greatly strengthened by the membership of the big Consolidation Coal Co. Its receivers have authorized the purchase up to $35,000 worth of Appalachian Coals stock, and J. Noble Snyder, vice-president in charge of sales for "Consol," has been elected a director.

Similar cooperative sales organizations are now under discussion throughout the bituminous field. Coal operators in Ohio have been marching along right behind Appalachian Coals, Inc., and are forming a central sales agency to be known as Northern Coals, Inc. They had drawn their bylaws when Appalachian Coals was found in restraint of trade, and so they put them on ice. About three quarters of the regional tonnage has signed declarations of willingness to join and the organization will be perfected when the mem-

bers decide they have enough signatures. The Ohio group definitely includes the operators of the big eastern Ohio field and the Middle and Cambridge districts and may include Hocking and the West Virginia Panhandle, though Hocking discusses forming its own sales agency. The Panhandle may not go in, because Ohio has new low intrastate freight rates. Big lake shippers like the Hannas, the Bradleys, the Warners, Youghiogheny & Ohio, Lorain and Cambridge Collieries will belong.

Northern Coals will open its headquarters in Cleveland, home of most of the big eastern Ohio companies and of the Eastern Ohio Coal Operators Association. Many of its members expect to belong to more than one association. Several are in Appalachian Coals.

Fears of the dealers that these new marketing companies might squeeze them out by selling direct to the consumer have been quieted by J. D. Francis, president of Appalachian Coals, in a statement that the place of the retail coal dealer is fixed and recognized and that he will receive full cooperation.

Muscle Shoals Message

Roosevelt wants a Tennessee Authority for a vast program to make work—Army figures show bad economics.

REACTIONS to the President's message on Muscle Shoals depend on whether the project is viewed as a relief program or an economic enterprise. As relief, its appeal lies in its promise to employ many thousands in work that is not competitive with other labor, the purpose being to spend money to feed families and stimulate business. The Tennessee basin offers a place in which men can be employed on flood control, soil erosion, forestation, and the elimination of marginal lands—also extension of the controversial power development.

Mr. Roosevelt recommends creation of a Tennessee Valley Authority, fashioned after the New York State authorities, "a corporation clothed with the power of government, but possessed of the flexibility and initiative of a private enterprise" charged with "planning for the proper use, conservation and development of the Tennessee River drainage basin and its adjoining territory for the general welfare of the nation."

From the strictly humanitarian standpoint, it doesn't matter whether this money need be spent here or not, since it will go to make work of a character that will interfere with no one—except perhaps in its power features—and have at least some value in the present crisis.

As a business proposition, argument centers around feasibility of increasing the Muscle Shoals power development. Here the sliderules rattle as the power engineers expound upon the efficiencies and finances involved. The government has already spent $150 millions on Muscle Shoals and 15 years of political controversy and carnage. Recent surveys made by Army engineers indicate an additional cost of $50 millions to complete the Cove Creek development, largely for flood control and water storage. Beyond this they estimate a total expenditure of $248 millions for navigation, flood control, and power on the Tennessee River project. Cost of developing the tributaries has not been itemized in detail, but estimates are upwards of $650 millions more. This makes a total capital expenditure of something like $1 billion to be sunk in the river developments.

Expectation is that the total project when completed should produce about 3 million kilowatts of firm power, at 50% load factor, to cost about 4.3 mills per kilowatt hour. The support of these power resources would thereafter be dependent upon sale of power to other public utilities for the use of industries to be attracted to the area. But the power men argue that at that rate, power from the government project could not compete with power already produced in the region from coal.

Northern Alabama, Southern Kentucky, and Eastern Tennessee contain an enormous coal field. Power stations can now be built for steam generation at a cost of from $70 to $80 a kilowatt of installed capacity and will produce power at about 4 mills per kw. at the station. Power engineers maintain that it is futile to enlarge the Muscle Shoals waterpower program in the face of these figures, and that to subsidize the power, by selling below cost to meet private competition, would destroy the local power systems and throw thousands of miners out of work in the local coal fields.

Just the First Step?

There is already an enormous overcapacity in power stations and transmission lines available to serve the territory. Power interests see in this recommendation the first step in a program for the political exploitation of a vast scheme for government power operations that will embrace the Columbia River basin, the St. Lawrence waterway, and eventually the Mississippi basin. In this would be set up a huge bureaucracy on a scale beyond anything ever contemplated by our government.

Doubt is also cast upon the practical

Wide World

CONSERVATORS OF MEN—Secretary of Agriculture Wallace (center) talks over plans to use the 250,000 men of the "conservation army" with Robert Fechner (left), in charge of recruiting, and R. Y. Stewart, Chief of the Forest Service, directly in charge of the work squads. Young, single men, most neglected in city relief plans, get the preference.

Wide World

FIRST CHOW—New York "conservation army" recruits are fed at rolling kitchens in the city before being sent to the camps. Having eaten, they were bored by agitators who made speeches on slave labor.

value of large reforestation in the area because of the character of the native timber. Conifers can be grown in the Gulf States in 30 years, and vast acreage is available.

Washington says that the Tennessee Valley authority will recommend an appropriation of $50 millions, of which $34 millions would be for building the dam at Cove Creek. This and other projects in the public works program, they say, might reach an ultimate cost of $5 billions over 3 years. The interest at 4% on this amount would figure $200 millions a year. And this raises the question of how much revenue or public benefit might be expected to offset such a staggering burden of debt from power, timber, navigation, and increased productivity of the soil.

But all arguments fall back again upon the fact that the whole question is preeminently one of making work on a large scale quickly. Whether the projects are carried to a conclusion or not is from this aspect secondary.

Forest Army Plans

National forests can provide 1,300,000 man-months of work for the recruited unemployed.

PLANS for the President's conservation camp project are crystallizing. The Forest and National Park Services have work schedules to take care of many men a week or 10 days after their enrollment in the large labor camps to be set up by the Department of Labor and the army. The men will string telephone wires, build minor roads and trails, landing fields, fire breaks, lookout towers, range fences, and water holes, improve public camp sites, and control insects and blister rust.

National forests alone can provide 1,300,000 man-months of work, and state, municipal, and cooperative private lands, 415,000 man-months. California labor camps show that recruits include everybody from civil engineers to pick-and-shovel men, and they soon qualify as ax men, cart-drivers, planters, graders, powder men, timekeepers, etc.

The law has passed and active recruiting has begun at several concentration camps near large cities, where unemployment is most acute. After classification, the men will be sent to small camps of about 100. Since young unmarried men have had the greatest difficulty in securing work on relief in the past three years, they will be given preference. First selection will be men from 18 to 25 years, who desire to have a substantial part of their cash allowance sent to their families and dependents. This is also the type best adapted for this kind of work. They will be joined in each area by a small number of suitable men selected from the unemployed of the locality. Work will commence first in areas most accessible. Of the 161 million acres of our 145 national forests, 135 million acres lie in the West, excluding Alaska, and only 7½ million in Eastern states. Most of the 177 million acres of public domain, 71 million acres of Indian reservations, and 8 million acres of national parks and other federal and state lands are remote from population. So the bill has been amended to include county and municipal and private lands, for cooperative work now provided for by law, to prevent and control fires, floods, and diseases. In this work, the emergency program will avert a serious situation as other appropriations are exhausted.

Where They'll Work

From Eastern camps, men will go to the White Mountains, the large state forests of New York and Pennsylvania, and to the 800,000 acres of national forests in the Tennessee basin. From camps near Chicago and Detroit, labor will be distributed to devastated forest lands of the Lake states. On the Pacific Coast is a string of national forests, running the length of the Cascade and Coast ranges and the Sierras.

The men can be fed for 35¢ a day. But when transportation, tentage, sanitation, bedding, clothes, medicine, kitchenware and cooks, firemen, timekeepers and other costs are included it will figure 80¢ to $1 per day. Available funds from unexpended balances are estimated at $148 millions.

Early attention is planned for the Tennessee River basin embracing power development, flood control, reforestation, and more economical use of marginal agricultural lands. There are 1 million acres in forest reserves and parks with very little work done.

Mothproof Dyes

Germans' one dye which permanently repels moths may be multiplied into many colors.

MOTHS do damage to woolens, silks, feathers, and furs which is estimated at $100 millions annually. There are 600 mothproofing or moth-repelling materials patented, not including fumigants, and still the search goes on.

Textile Foundation is financing research into the problem at the University of Illinois. German chemists have developed one dye which is in itself a mothproofing agent, giving protection for the average life of the cloth. There are also "colorless dyes" that do the job. But no wide-scale application is feasible until all colors are available.

The Ideal Bank

Unification under the Federal Reserve is desirable, but any study of the theory of banking shows what we really need is just one big bank with 20,000 branches.

OUTLINES of the new banking legislation, as they emerge from Senator Glass's subcommittee room, foreshadow eventual disappearance of nonmember commercial banks—a consummation devoutly to be wished.

This opens the question as to what kind of new banking system will or should be erected in the United States. It must be clearly understood that the unification of the banks under the Federal Reserve System does not necessarily solve the weaknesses of our banking institutions. Desirable as such unification may be, it still is an open question whether we have gone far enough in rectifying the weaknesses to which our credit system is subjected by the existence of thousands of independent banks. The ultimate aim of sound banking is not mere unification but centralization of our credit system. It is not sufficient that our banks be driven into the Federal Reserve System, because that still does not touch the weakness of leaving to thousands of banks, which are subject to each other's impacts, the problem of maintaining credit, of deciding who is to get a loan and how much.

It's a Help

The unification of the banks in the Federal Reserve System will add tremendously to the banking strength of the country. We may assume that the new legislation will further separate commercial banking from investment banking, that even the functions usually performed by trust companies and savings banks will either be separated from commercial banks or else the assets of the two groups will be rigidly segregated. Further legislation can control, limit, and supervise investment of demand deposits in bonds or mortgages or other long term investments. Under such a unified banking system it may be possible to stop the competition for time deposits by offering high interest rates, rates which have forced the banks to seek high-yielding low-grade investments. In fact, the law may prohibit paying interest on some classes of deposits. We may also look forward to legislation that will prevent the freezing of too large a portion of the capital in bank buildings, furniture, and fixtures which are not warranted by the business volume. In fact, it would be possible under such unified banking organization to demand adequate liquid capital to back up deposits. The Liquidation Corporation and a form of guarantee of deposits would be made possible under adequately inspected banks.

In brief, the benefits that will come to the country from a unified banking system which will change our 48 state commercial banking systems and one national banking system into one system under Federal Reserve banks are far-reaching.

Fundamentals Untouched

But students of banking must not delude themselves that the fundamental banking problem is solved by such unification. What is needed is centralization. The ideal solution is a complete consolidation into one bank. A partial step towards such a banking institution would be the enactment of branch bank legislation on a nation-wide scale which would sharply reduce the number of banks in the country and supply banking facilities through banking offices and branch banks in every part of the country. It is to be feared that geographic limitations will be placed in branch bank legislation now proposed. The last Glass bill limited branch banking to state boundaries. This would mean that such a state as Nevada, with a population less than Schenectady, N. Y., would be forced to erect a banking system which in contrast with the branch bank system in New York or Pennsylvania could in no sense be independent.

It must be clearly understood further that even nation-wide branch banking does not solve our credit problem and will not protect the country from a recurrence of the credit deflation totalling almost $12 billions which has taken place in the last 4 years.

Bank credit, at the present time, is of necessity regulated by the amount of reserves, and therefore no banker really controls credit or his institution., In order to have the total volume of business and prosperity continue at an undiminished rate, bank credit must never decrease; in fact, it should constantly increase at a rate in sympathy with industrial activity.

Theoretically, so long as the flow of credit is constant and, in each bank, the outflow and inflow of credit is equal, the bank's reserves are unaffected and the banking system operates as a unit. Its cash reserves are used only to furnish petty cash requirements. Such an ideal situation is established and continued only by accident. The underlying imperfection which limits individual action by able, courageous, and progressive bankers is that in the transfer of these credit deposits from one bank to the other, the individual bank must deplete its cash reserves. If the return flow of credit is interrupted by the failure of bankers of other and perhaps distant points to continue the normal flow of credit extension, our individual bank finds its reserves being depleted. Under these circumstances, the bank is compelled to cease manufacturing this medium of exchange to be constantly transferred to other communities. For its own preservation, it attempts to force a return flow by pressure on its borrowers to liquidate their loans, compelling them to obtain credit from other banks or sources. Bankers are forced into this course regardless of how much they desire to continue credit facilities and industrial activity in their community and in the nation.

Partial Remedies

These defects in the credit mechanism are not remedied by a unified banking system under the Federal Reserve System and are only partly remedied by even a nationwide branch banking system. They can be dealt with only through one centralized bank.

Unless this defect is remedied, we face chaos. The present precarious situation demonstrates that the banking system is unworkable.

The banks that have been genuine commercial banks, in the sense that they have emitted credit on self-liquidating commodities, commodities that were in process of manufacture and on their way to markets, these are the banks that were forced to close their doors. The banks that have survived have been the banks that have conducted a "pawnshop business." The large banking institutions in New York City and our other metropolitan centers have become in a sense glorified pawnshops, not much concerned with the emission of credit in the manufacture and movement of goods, but mostly in making collateral loans. The 15,000 small banks that have failed have suspended largely because they emitted credit to agriculture, trade, and industry upon goods that were moving to markets. They were forced by the weaknesses of the system to call their loans and thereby restrict and stifle industrial activity.

Not an Indictment

This is no indictment of bankers. No banker is today in a position, no matter how thoroughly he understands the national needs, to extend commercial credit. The need of the nation is adequate credit, but the self-preservation of the banks calls for liquidity. No banker with a sense of responsibility to his depositors or stockholders can afford to subject his bank to the grave risks involved if he permitted the pressing credit needs of the nation to dictate the action of his lone bank.

One centralized bank, operating

RESTLESS FEET

People standing before the doors of an elevator. Waiting when they are anxious to be at work, to fill an appointment, to go to lunch. Waiting with restless feet and furrows of dissatisfaction in their faces.

GOOD elevators do not always give good service. Like an exacting instrument or a great railroad engine, they must receive regular care from practiced hands.

The veteran hands of Otis mechanics are best fitted to care for an elevator. Hands that can make the many exacting adjustments which are the final assurance of first-rate elevator service. Otis Elevator Maintenance places the responsibility of your elevators entirely in these hands.

Under Otis Maintenance, elevators receive regular examination and exacting care. The motors are carefully gone over. The cables and the brakes are tested. Every working part, every feature of control is minutely adjusted. A worn part is replaced before it has the opportunity to give trouble.

Otis Elevator Maintenance is not high in price. It is far cheaper than the dissatisfaction which comes from poor elevator service and the expense of empty rental space. Otis Elevator Company, offices in the principal cities of the world, or at 260 Eleventh Avenue, New York City.

through 20,000 branches locally owned and locally managed, would be the ideal solution. It would almost instantly remedy a large proportion of the ills to which we are subjected.

Politically and practically, such a solution is out of the question. The financial statesmanship of the nation therefore must address itself to this problem along these lines: First, that all legislation should be designed to bring about ultimately a credit situation that will make the emission of credit independent of the reserves, that will control the life-giving credit to trade and industry, not by the haphazard method of helpless individual bankers, but which will synchronize, centralize, and control it, consciously in response to the industrial and agricultural needs of the nation. Second, further emergency banking legislation is imperative to open up credit facilities in the thousands of towns and villages to which there have migrated the discharged experts of corporations, of manufacturing enterprises, of utilities, and of merchandising organizations, who are straining to go into business for themselves and who could, each in their small way, start industrial activity and production even under present demoralized levels where the unwieldy corporations from which they came are helpless.

Wall St. vs. Woodin

It looked as if the N. Y. Clearing House might back away from its implied guarantee of Harriman Bank deposits, so the Secretary has stepped in.

NAIVE and old-fashioned Uncle Sam apparently still believes that a promise is a promise. At least that is the attitude taken by the Treasury Department toward the implied promise of the New York Clearing House to guarantee the deposits of its member banks, a promise that is being put to the test in the case of the Harriman Bank.

The New York Clearing House has a history of self-imposed discipline and concerted action on its member banks. It has enforced a code of practice of which it has been proud. Its committee fixes the rate of interest to be paid on deposits, and in times of emergency the authority of the Clearing House has averted many a financial crisis. Its examination of member banks supplements those of state and national examiners and is the most rigid in the country.

Officials and members of the association have let it be known in recent years that the association has an agreement for the mutual protection of its members. While this agreement never has been stated formally to the public, it has been implied in newspaper advertisements, has been referred to repeatedly in private discussions, and has been acknowledged specifically by two successive chairmen of the Clearing House committee with respect to the Harriman Bank itself.

The Clearing House first began to give close attention to the Harriman Bank last July. Harry E. Cooper, former vice-president of the Chase National Bank, was made president of the Harriman at the insistence of the Clearing House, as one condition of its pledge of support. The Comptroller of the Currency and the Department of Justice say they delayed action with respect to irregularities in the Harriman affairs on the representation of the Clearing House that it would stand behind its members.

Discoveries

The Harriman Bank did not reopen after the bank holiday. Now the Clearing House announces: (1) That it would be illegal for a bank to contribute its stockholders' money to the rescue of the Harriman depositors; and (2) that the Clearing House mutual protection agreement thus had never been valid.

However, Uncle Sam thinks otherwise. Secretary Woodin has appointed the Manufacturers Trust Co. as a sort of liquidation corporation for the Harriman, and has directed the Reconstruction Finance Corp. to advance the necessary funds, estimated at from $6 to $6½ millions. But he is exacting warrants from the depositors with which the United States government can proceed against the Clearing House to redeem its promises and against the Harriman stockholders to enforce double liability. It is a happy ending for the depositors, but there is much wailing and sweating going on in the chaste offices of the large banks in New York City. As matters stand now, it is improbable that the Clearing House will permit the issue to go to court. A considerable number of the members of the Clearing House all along have been in favor of redeeming their promises, irrespective of cost. The assessments will range from several thousand dollars to a million. It is also possible that there may be enough assets, including the double liability of the Harriman stockholders, eventually to reimburse the Clearing House.

Is This the End?

While redeeming of the implied promise to the depositors will tremendously augment the prestige of the Clearing House in the eyes of the public, it will, on the other hand, make the banks chary of remaining within the group. Many of the functions of the Clearing House are now performed by the Federal Reserve System. This gesture to depositors may sound the death knell of the organization.

Acme

SICK BANK, SICK BANKER—J. W. Harriman, former president of New York's Harriman National Bank & Trust Co., is carried into the dingy Federal Building to answer a charge of false entries in the books. Although ill of heart disease, U. S. Judge Coleman forced his appearance after examination by the Court's physician. He arrived on a stretcher, hid his face from photographers.

One Bank System Is Growing

Suffering from political by-play, the Home Loan Bank System continues to attract new members and feels certain it will be spared the Roosevelt ax.

VARIOUS observers of events in Washington have predicted that President Roosevelt will swing the ax on the Home Loan Bank System when he gets around to it. Supporters of the system do not believe it. The institution has been under fire, and good friends of the system say quietly that much of the criticism is understandable and some of it justified. But they feel confident any investigation will demonstrate it is potentially one of the really important and constructive pieces of new financial machinery created in recent decades. It will survive; in fact, there seems reason to believe its functions may be expanded.

In 7 months, laws of 41 states have been amended to enable building and loan associations to join the system. Nearly 2,200 institutions have applied for membership. Some 900 have been admitted—the best and strongest of the applicants. Loans have run about $20 millions, nearly all of it earmarked for use in repairs and remodeling, taxes, and refinancing short term loans. When the bank holiday interrupted, applications totaled $70 millions more.

Loans were being made at the rate of $5 millions a week when the banking crisis and a new Administration came along, creating uncertainty in the minds of members as to the future of the system. Senators Couzens and Borah have helped undermine confidence by their persistent criticism and hostility.

Shake-up Expected

Washington looks for a reorganized board—which would not be too bad a thing. Some of the sharpest criticism of the system has been built upon the utterances of the politically-minded first chairman, Franklin W. Fort of New Jersey. He it was who, during the campaign, was saying, "All home foreclosures will cease as soon as the Home Loan Banks have been functioning 60 days," "Any borrower who has a distressed home mortgage can be helped by a Home Loan Bank," "Write to Uncle Sam about your mortgage troubles." These were promises impossible of fulfilment.

In general, the Home Loan Bank legislation was sold to Congress as an emergency measure, when as a matter of sober truth, its value is limited during this depression and its real worth will only develop over the course of years.

The U. S. Building and Loan League, in a statement presented to a Senate Committee, opposed any change in the law after so short an experience with it. Said a recent statement of the League:

"The life insurance companies militantly opposed the system and to this date very few have come to the support of it, although they have been made eligible for membership. Instead of using credit facilities provided by Congress, insurance companies and bankers are sending hundreds of their own mortgage debtors to the Federal Home Loan Banks in an endeavor to convert their mortgage mistakes into cash."

City Mortgages

Urban home-owners get same brand of mortgage relief as the farmer.

HAVING devised a plan to lighten the mortgage load on the farmer, the Administration has proceeded, as predicted, to extend similar benefits to the urban home-owner. The new program will adhere closely to the formula worked out by the Department of Agriculture. Any mortgage holder who will agree to reduce the principal of a home-owner's obligation may exchange the mortgage for an interest-guaranteed bond issued by the government mortgage corporation. Home-owners threatened with foreclosure may take the initiative in bringing about such an exchange. Mortgage holders are believed to be ready to accept a generous cut in payments to get liquid bonds in place of frozen assets. The program also follows the farm program in providing for a moratorium on payments by the home-owner. Chief criticisms of the bill are directed against what some home-owners call "the government's indeterminate basis of appraisals" and against its decision on interest rates.

Building Code

New York attempts to correct thirteen years obsolescence and faces a fight.

AFTER 13 years New York has prepared a new building code and is about to battle over its adoption. It reflects the progress of the art and makes permissible improved standards now obtainable only by special rulings and permits, and runs smack into an interborough political fight. Brooklyn claims it was drawn up for Manhattan's tall office buildings and not for the apartment houses and factories of Kings County. In 1928 the mayor of New York asked the Merchants' Association to undertake a revision of the building code. Twenty committees with 125 members, supported by technical talent, now produce not a revision but a new code nationally important because New York's building practices influence the country.

The fate of this code is of wide interest. Of 37 cities of 250 thousand population or over, 14 are now revising codes or preparing to revise them. The oldest of them has been 33 years in service. The majority are from 14 to 24 years old. In New York's new code they have attempted to avoid the usual methods of revising individual sections and then reconciling the conflicting demands of affected interests by compromise. They have built a whole new code with a radical change in makeup. Fundamental requirements of fairly permanent character are separated from specific provisions which will be capable of easy revision in this form. Steel sections are incorporated that were already

The Business Week

TELETHERMOMETER — This new **Westinghouse device enables** a **building superintendent to dial** remote **rooms, read their temperature** by wire.

approved to permit the Empire State Building to take advantage of greater stresses, justified by stronger steel. Concrete made by "controlled" methods that produce predetermined strength can now be legally used for higher stresses. Stresses for brick and other materials are raised, requirements for floor loads reduced in line with actual conditions, foundation provisions elaborated, and structural welding permitted, as in 150 other cities.

With ordinances based on obsolete standards, builders operate not on the code but around it, with extra expense for dispensations and special inspections. If selfish interests can be controlled, New York will make a contribution to progress.

Insurance Curb

Uniform code of restrictions on insurance loans recommended to end confusion.

LATEST counts show that 23 states have passed laws authorizing their insurance commissioners to issue rules restricting the operations of life insurance companies; that 21 commissioners have issued such rules; that 7 other states have imposed restrictions through their legislatures; that 8 more legislatures are considering bills to this end. The chief end has been to limit policy loans and cash surrenders in an effort to plug leaks in the insurance companies' cash (*BW—Mar22'33*).

All this has been no fun for life insurance salesmen. Sales resistance has been piling up with every new restriction. Policyholders and prospects have been more confused by the fact that the states have exhibited their customary disregard for uniformity in making "moratorium" rules. New Yorkers, limited to $100 loans on their policies, can see their companies paying out full loan values to holders from other states which won't "play ball" with the New York authorities.

Urged to efforts to end this confusion, insurance commissioners of 31 states have just met in Chicago, taken the first steps through the adoption of a uniform restriction plan which will be urged on their states. They believe that this plan embodies the best features of the New York and Illinois regulations. Under it, insurance companies would pay no dividends to stockholders so long as state restrictions on policyholders' claims were kept in force. Loans or cash surrenders would be granted only to cover premiums or other obligations to insurance companies, to pay taxes or meet mortgage payments on homes, to finance hospital, medical or funeral expenses incurred by a policyholder's family, to satisfy reasonable applications prior to the imposition of restrictions. New York's release of disbursements for "educational and agricultural purposes" was not approved.

The commissioners revealed that they do not expect the current restrictions to be lifted in a hurry. They appointed a committee to study the situation further, report to the June convention of the National Association of Life Insurance Commissioners.

Meanwhile, insurance commissioners, insurance companies—and, perhaps, insurance policyholders — are watching Washington's reactions to Senate and House proposals for a $100-million boost in the Reconstruction Finance Corporation's borrowing power to enable it to buy preferred stock, bonds or debentures of insurance organizations. Mentioned as a receptive beneficiary of such relief is the Globe & Rutgers Fire Insurance Co. of New York, closed by George S. Van Schaick, State Superintendent of Insurance, pending rehabilitation or liquidation (*BW—Apr5'33*). But Mr. Van Schaick now thinks liquidation more likely.

Patent Rights

Assertion of claim to employee's invention makes specific contract unnecessary, court decides.

F. W. DUNMORE and P. D. Lowell, investigators of the U. S. Bureau of Standards, got an idea for a fundamental improvement to radio receiving sets, worked it out in practical form, obtained a patent and profited thereby. The bureau then decided that the patent and the profits belonged to the government. The long wrangling in the courts which followed this decision ended last Monday. The Supreme Court found no right of administrative authority exists to deprive the individual government employee of the rewards of commercial exploitation of his own invention arrived at outside official assignments. It declared that Congress has been silent on this point. Until Congress acts employees may not be so deprived.

James A. Singmaster, one-time general manager of the technical department of the New Jersey Zinc Co., conceived the idea of incorporating zinc pigments into the cellulose mass from which rayon filaments are spun, resigned his job, obtained a patent on his new process, sold it to the Tubize Chatillon Co., rayon manufacturer. New Jersey Zinc, asserting that the process was evolved in its laboratories (although Mr. Singmaster dated his invention 7 days after his resignation) pointed out to the courts that, unlike Congress, it had not been silent about its claim to all patentable ideas worked out by employees. Deciding for the zinc company, the

Southern District Court of New York recently asserted that the fact that this policy had been clearly and continuously stated to employees was enough, that no specific contract assigning patent rights to the employer was necessary. Other concerns are studying this latter and widely important phase of the decision.

Copper Shutdown?

Producing mines expected to close —perhaps in foreign fields also.

EXPECTATION is growing in the copper industry that there will soon be a complete shutdown of the remaining producing copper mines in this country. It would create no surprise if this "copper holiday" became international by agreement. Such international negotiations are conducted with great secrecy but the wind is blowing in that direction. If so, it will stand as the world's greatest lesson in the folly of unbridled production.

As it is, the 1 billion pound surplus of copper in this country is depressing the price of the metal below actual cost of production. A large part of this surplus was dumped into our market by foreign producers just before the 4¢ tax was imposed by the last Congress, and though domestic production is being kept below consumption, it cannot cut far into the oversupply for some time.

The present 4¢ tariff on copper, which expires by limitation on June 30, 1934, has had no effect on the prosperity of the producers, because there has been no demand. It promises none because of the overwhelming stock, and a major operation is apparently impending in the form of a general shutdown until this paralyzing obstacle shall have been worn away.

For the aid of the thousands of families dependent upon the industry for their livelihood, it has been suggested that the War Department buy the surplus stock at 5¢, as an investment and a measure of preparedness. It is argued that there is a measure of justice in this since the inflation of copper production was a direct outgrowth of war demand. Such action, it is argued, would promise stability for the industry.

No Window Trimming for Schacht

In panicky 1931, it was important to make the Reichsmark look stable. In realistic 1933, it is more important to face the facts, and economize.

DR. HJALMAR SCHACHT, new head of the Reichsbank, is above all else a realist.

He proved this to his own satisfaction—if not to that of Germany's political creditors—when he declared in 1930 that Germany could not pay reparations much longer unless the world provided the means of accepting German products. The agreement at Lausanne which virtually ended reparations proved Dr. Schacht was right.

Last week he surprised world bankers by repaying the $70 millions which the Reichsbank owed to 4 great creditors, and promised to repay $45 millions which are owed to American banks when the maturity comes around late in June. This will reduce Germany's gold reserve to less than $100 millions, and the gold cover on German currency to less than 10%.

Dr. Schacht had only a brief explanation to make for his offer to repay the entire foreign obligation of the Reichsbank. "The $70 millions of borrowed gold were useful only to embellish the Reichsbank's statement each week. They did not improve Germany's real capacity to pay. All the time we were paying interest without getting any profit."

Dr. Schacht's reasoning is plain when the history of the credits is reviewed. In the early spring of 1931, when a banking crisis in Central Europe precipitated a run on German credit which led up to the declaration of the Hoover moratorium on reparations and debts, there was an appeal to the Bank for ternational Settlements, the Bank of rescue of Germany. It seemed necessary at that time to support the mark with a further backing of gold.

Representatives of the Bank for International Settlements, the Bank of France, the Bank of England, and the Federal Reserve Bank got together and agreed that each would contribute an equal part to a $100-million credit for the Reichsbank which was to be secured by the gold reserve of the bank. The credit was renewed on a quarterly basis and in the 2 years which have intervened, the Reichsbank has repaid $30 millions, besides maintaining the interest.

The function of the loan was to maintain the gold backing of the German mark at something over 25%. This looked well on the weekly statement of the Reichsbank, and gave a degree of stability to German credit in the eyes of many private creditors. Actually, Germany had no greater reserves than before and, in fact, was forced to pay out some of her gold reserves in interest on the money which these central banks had loaned.

Within the last 3 months, Germany's export surplus has been dwindling. This is inevitable in the face of mounting trade restrictions in almost every country. Also, the political uncertainty in Germany since Hitler came into power and the governmental policy of curbing imports further, threaten to decrease the ability of the Reich to meet payments in future on private commercial obligations.

No Time for Display

Dr. Schacht reasoned that Germany could no longer afford the window trimming. So he paid off the $70 millions still owed on the central bank credit.

The German mark, which has been artificially maintained at the old gold value, sagged when the news was made public, and German bonds weakened on foreign markets. Beyond this, there was comparatively little reaction on business.

Foreigners generally are inclined to accept the matter calmly, but to believe that Germany is paving the way for a strong demand for interest reduction on the private debt, and for a writedown of the outstanding debts. With a gold cover of less than 10%, and with the export surplus cut to the point where it will no longer cover each month's interest payments, Germany is in a position to demand reconsideration of the private debts.

This looks as if Germany has maneuvered herself into a position simply for the bargaining advantage. Creditors are inclined to be kinder in appraising the situation. Since the German crisis in 1931, Germany has completely overhauled her banking system, established rigid control of foreign exchange, organized the foreign short-term debt, attempted to cut imports and force exports in order to get the required surplus of foreign exchange to meet private debt obligations.

Retaliatory Openings

This last policy has boomerang possibilities, though Germany can't be blamed for starting it. Efforts of the various Berlin governments in the last year to reduce imports have so drastically cut into the exports of neighbors and good customers even at a distance, that German trade now is suffering from retaliation.

It is probable that creditors are about ready to write down the interest rates on German debts. How far the principal has to be written down depends on how far creditors are willing to admit German products in payment. They will try to reserve their decision until the trade conferences in Washington indicate how far the international flow of trade may be revived.

WHO'LL BE YOUR CUSTOMERS IN 1933?

You can't get away from this fact: Some one will have to buy your goods or services if you are going to stay in business.

There are fewer buyers in all markets. But taken all together they are able to buy more than any producer is prepared to sell.

But it isn't enough that these buyers have money. They must have the capacity to replenish and create wealth. They must have confidence in their ability to master 1933 problems.

Who are they? Where are they?

They have badges that identify them. We know many of them and we know how to reach them —for their badges are the circulation stencils of

THE BUSINESS WEEK
Primary for Business

Wide Reading

Our Wheat Surplus. E. G. Nourse. *Foreign Affairs,* April. "Until we have a better gauge of the purchasing power of the world's consumers during the next decade or so, we cannot try intelligently to fix the proper scale of our American production."

What the Brewery of the Future Will Look Like. Victor Buhr. *Food Industries,* April. Up-to-date layout and management principles for a revived industry.

America's Real Job. James Truslow Adams. *Scribner's,* April. "The American people are fed up with the present depression but they are not going to take a chance on working out of it by changing all their institutions and ways of life over night, whether in accordance with some plan or a new constitution. Individualism may have to go, but it will have to go gradually and more or less painlessly."

The Land-Conservation Camp Plan and the Tennessee River Basin. S. T. Henry and Irvin Foos. *Engineering News-Record,* Apr. 6. Main features of the plan for unemployment relief camps in federal forest reserves and a survey of the area most prominently discussed as the scene of a great experiment in regional planning.

Japanese Take Over Manchurian Railways—and Close the Transportation "Open Door." *China Weekly Review* (Shanghai), Mar. 18. Chinese lines in Manchuria are incorporated under the control of the South Manchuria Railway. New construction continues.

Hays Offers Five-Plank Program to Solve Readjustment Problems. *Motion Picture Herald,* Apr. 1. Movie czar urges theatre decentralization for greater economy and better operation, with cooperative distribution to reduce costs.

A Shock for the Power Trust. Morris A. Bealle. *Plain Talk,* April. Where are the $10 billions in profits taken by the war profiteers in 1917 and 1918? The Treasury and War Departments refuse to give out the information, but some of it can be identified in anonymous reports.

REPORTS—SURVEYS

Aids to Retail Grocery Profits. U. S. Department of Commerce, 68 pp., 10c. Practical hints designed to help make more money for the grocery retailer.

Corporations and Their Income. National Industrial Conference Board. March *Bulletin.* Another analysis accompanied by charts of corporation incomes from 1917 to 1931, revealing the wide prevalence of deficits in 1931. Over 65% of active corporations reported no net income in 1931 compared with 52% in the depression of 1921. Rate of earnings to capital for all corporations but slightly larger than interest rates on safe investments.

Industrial Trends in Wisconsin. Edwin M. Fitch and Ruth L. Curtiss. University of Wisconsin, 58 pp. Wisconsin undertakes to determine whether industry is expanding more rapidly in its small towns than in its present large industrial centers and reports that advantages in one counterbalance advantages in the other, that each is equally favored.

Recognize Russia

President Roosevelt is too busy with emergency legislation to give the Russian question much personal consideration now, but his henchmen are busy on the problem.

SPORADIC flashes from Washington that President Roosevelt is about to recognize the Soviet Union are not altogether without foundation. Since the political campaign, it has been evident that the President is open-minded on the question. He has not yet committed himself, however, and until he does business can do little more than watch for the motion of recognition straws when fanned by diplomatic breezes.

Senator Pittman, chairman of the Foreign Relations Committee, won praise from the various "friends of Russia" in this country when he said recently he would favor recognition if he were sure that it would be of economic benefit to the United States. He even intimated that certain trade agreements might be reached "in advance," which is not impossible.

Hull for Recognition

Secretary of State Hull has long been an advocate of recognition. He openly expressed himself as recently as Jan. 9, when a Washington newspaper polled political opinion on the question. Recently there have been reports that our "traveling ambassador" in Europe, Norman Davis, is expected to have conversations with representatives of the Soviet government (quite unofficially, of course) at their various headquarters in Europe, especially London.

With the Administration in Washington desperately anxious to do anything that might contribute to a revival of business, and with Moscow willing to pay well for recognition, the result seems inevitable though the bargaining may take longer than is now anticipated.

The best official opinion is that Roosevelt will recognize Russia suddenly some day after the present legislative emergency has passed, and with as little public consideration as possible in advance, on the theory that he wants to avoid a public fight with the D.A.R. and other hostile organizations. Also, he will make the possibility of expanding trade and aiding certain lines of business in this country his chief publicly stated reason for the policy. But the internationally minded will never believe that the present conflict in the Far East and the feeling that it is a threat to the United States was not importantly behind the move.

When American exporters who have been doing business with the Soviets in the last 3 years talk about Russia, little importance is attached to "recognition." Much more weight is placed on vague announcements from Washington of plans for "export credits"—for any foreign business, not just Russia. It is the opinion of most of these men that recognition alone would bring few economic benefits unless there is a definite promise of orders from Moscow, or provision for financing long-term export credits which would put American manufacturers on the same basis as their European rivals.

Bankers' Version

In this connection, American bankers have their own version of the recent reports from Berlin (*BW—Mar22'33*) that credit extensions were granted to the Soviets "because they were in a tight place." The word is being passed around from usually well-informed sources that the Russians were finding it very much to their advantage to buy up "blocked" Reichsmark accounts through the London and New York markets and use them to pay their maturities in Berlin. This was common practice during the winter (*BW—Feb1'33*). It meant that Germans were building up no current credits with which to buy new and required raw materials from the Soviets. It was at their suggestion, according to New York reports, that credit extensions were granted to the Soviets against shipments of raw materials which would come later in the year and which German industries very much wanted. And, as an inducement to the Soviets to give up paying in "blocked" marks which they could buy at a large discount, the Germans extended new credits.

As *The Business Week* commented at the time the Berlin report was printed, there is, no doubt, a lot of shrewd bargaining going on between the Russians and their various creditors, just as the creditors are driving hard bargains on the orders they place with Moscow. The possibility that President Roosevelt will push Americans into the market again with some definite promises of trade from Moscow will intensify this competition.

Asbestos Outlet

Washington, actively after Soviet business, finds no reason for keeping out Russian asbestos.

NOTHING is more encouraging in the foreign trade prospect than that the United States is about ready to make some concessions to foreign debtors who want to sell in the domestic market to pay for the materials they are buying here, or want to buy in large quantities.

No foreign market is more intriguing than the Soviet Union. Practically everything that the Russians want to buy abroad can be purchased to advantage in the United States if the Soviets can find some way to pay.

Within the last 6 months rumors have been rampant that various American manufacturers have been puzzling over schemes for the sale of Soviet goods. Some of these are plans to sell certain products in the United States. Others are plans for a triangular trade (*BW—Mar29'33*) whereby Russia can sell to a third country, which, in turn, can sell to the United States.

What Soviets Can Sell Us

Whenever the question of Soviet exports comes up in a meeting of American executives, everyone asks all over again what products the Russians are prepared to export in quantity, and which of these we do not supply domestically. Important in every list are manganese, pulpwood, asbestos furs, fish products, and oil (for sale through American companies distributing abroad).

It is significant that President Roosevelt last week approved the finding of the Tariff Commission that Russian asbestos has not been imported or sold in the United States in violation of the Tariff Act. This decision, and the Presidential approval, means that the ban on asbestos imports from the Soviet Union is lifted.

In 1925 and in 1930, the United States imported more than $7 millions of asbestos. Canada supplied most of the imports. Direct Soviet-American trade in future may include heavier cargoes of asbestos.

Salt Road

Nova Scotia finds a new use for salt by combining it with local clay to surface a road.

CURRENT efforts to find new uses for familiar products and home markets for local industries are resulting in interesting experiments. One that has attracted the attention of engineers is Nova Scotia's attempt to use surplus salt from its Malagash mine in connection with local clays to provide a new type of road surfacing. Method employed on an 18-ft. trial road was to spread the clay—15 tons to the mile—on a gravel foundation, add a similar amount of salt, wet down and roll. This forms a plastic mass that appears to lose water at the surface without becoming dusty. Repairs are made by using equal quantities of clay and salt.

Business Abroad

Whole world watches plans for Roosevelt's "Little Economic Conference." Spring pickup widespread, but below normal. Controlled production anticipated in several countries. German labor organizations shift toward Mussolini model. China continues to build.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—President Roosevelt's "Little Economic Conference" has monopolized business attention in European centers this week.

Britain is following the news enthusiastically, despite the fact war debts are to be "just a part of the conversations" instead of a matter of first importance. London probably will be asked to stabilize the pound sterling, and probably will agree to do so.

France is pleased, without being enthusiastic. The French are reluctant to admit that Herriot can negotiate very far so long as he is not a member of the present government and so long as the French Parliament insists on curbing administrative authority more than is popular elsewhere.

Germany is a little too busy at home to pay too much attention. Besides the debt question is less important to Germans now that reparations have ended. The breaking down of world trade barriers, however, is almost more vital to Germans than to any others.

Back of all the talk in Europe is the realization that the situation is desperate, that the United States has heavy clubs (in the threat of monetary manipulation and exchange control) to wave over foreigners who fail to drop extreme economic nationalism for a franker bargaining spirit. Europe is eager to know what concessions the United States is going to offer.

A spring pickup, though not too vigorous, is helping most countries. Unemployment is down as industries swing into more active production schedules. British industry is making radical changes in organization. Hitler is completing his control over every part of German industrial and social life. France has made no headway with the budget, and is worried over Germany and the continued threat of a Germano-Italian rapprochement.

Germany

Hitler rounds out his control of the government in the states. Nazi unions enfranchised.

BERLIN (*Cable*)—Germany has been comparatively calm this week and the Hitler government has made some progress in consolidating its position.

Outstanding development was the decree establishing a governor-general over each of the states, removable only by the President. Politically, the states can no longer oppose the government effectively. Hitler's concentration of power over all parts of the government is now complete.

There have been evidences during the week that the government is making a show of socialism by telling employers what they can and cannot do, but business is not yet alarmed over the prospect of government interference.

German Labor Goes Fascist

Unemployment declined 337,000 during the second half of March, but the improvement was due largely to seasonal pickup. Hitler broke through the trade union monopoly, heretofore exclusively reserved to unions representing the old political parties (page 6) to give a franchise to Nazi unions. The government is still divided on its trade union policy, the more moderate members wishing to move cautiously so as to keep the confidence of the workers. The radicals would go all the way and adopt Mussolini's "corporate" system at once.

There are spotty signs of improvement due mostly to better domestic demand. Industry is still feeling the effects of the foreign boycott. Recent radical farm relief measures are responsible for the heavier sales of agricultural machines and fertilizer.

New Steel Orders

Public works projects are beginning to materialize and industry is profiting from the materials orders. Steel, especially, has been more active this week. The new Hitler law exempting new automobiles (regardless of size) from taxes so long as they are in the possession of the original owner, is hailed by the automobile industry, though dealers apprehend wider depreciation on their stocks of used cars.

The loss of $22 millions in gold, disclosed on the Reichsbank statement, reflects the first repayment of the B.I.S. credit, incurred in 1931. While elimination of borrowed gold changes the status of the Reichsbank, it is immaterial to the stability of the mark (page 22). Dr. Schacht's step is avowedly taken to prepare the ground for revision of the servicing on the foreign private debt. Further action is likely to follow soon unless the March export surplus is substantially higher than the surpluses for the first 2 months of this year have been.

Germany has been invited to the Roosevelt talks in Washington, and has appointed the new Ambassador to the United States, Dr. Hans Luther, to represent the Hitler government.

Great Britain

London expects good results from Washington conferences. Steel industry tackles reorganization. Rayon manufacturers plan closer cooperation to meet Japanese competition.

LONDON (*Cable*) — The approaching Easter holiday and the imminence of budget settlement has slowed trade but the business tone is good with rising hopes for good results from the Roosevelt talks. Britain's only difficulty in the tariff negotiations are the Ottawa agreements and most-favored-nation clauses in 47 existing treaties, but it is official opinion that these, under Roosevelt's lead, can be eliminated.

The steel industry has produced its first memorandum on the long-promised reorganization under pressure of the Tariff Commission and is proposing the creation of a central British iron and steel corporation to undertake the work of supervising the coordination and control of the specialized work of some dozen separate associations representing various groups of iron and steel products. This is not a reorganization scheme proper, only the machinery for one, but it is an important first step.

Courtaulds, well-known textile firm, is negotiating for the purchase of the British ENKA Co. from the Dutch AKU group as a further step in the cartelization of European rayon against Japanese competition. Courtaulds already is interested in AKU through its German subsidiary which holds shares, and recently the success of Courtaulds competition against ENKA has actually hit Courtaulds eventual interests.

Textiles May Reorganize

Lancashire cotton spinners are again trying to find a means of restoring prosperity, but are divided on whether to back financial amalgamations or centralized control. Ramsay MacDonald has warned that it is useless to rely on help from London. Local initiative and local money must solve local problems. Plans to launch 3 new combines involving 9 million spindles are under discussion but some sections believe combines are worthless.

The Jewish campaign against German goods has been renewed with fresh bitterness.

Hope of maintaining Russian trade

relations is faint. The public is of the opinion that both Litvinoff and the British government have handled the situation growing out of the "sabotage" trial in Moscow with needless provocation and ineptitude. There is sympathy for the arrested engineers, but the government is believed to have been too aggressive in its first demands. On the other hand, there is wide suspicion that Russia is being deliberately provocative in the hope of ending relations with large debts unpaid.

France

Paris questions Herriot representation in Washington. No progress on the budget. Spring revival continues.

PARIS (*Wireless*)—President Roosevelt's choice of Herriot as French delegate to the Little Economic Conference probably is the second great American blunder, following the Hoover moratorium. The danger lies in the certainty that America is faced with still another disillusionment, since Herriot, once upon American soil, necessarily is bound to limit his rôle to a mere goodwill representative.

Admitting Herriot is the finest type of French politician—a Wilsonian idealist and internationally beloved—these qualities alone fit him as appropriate French delegate. But, unfortunately, France is still subject to parliamentary rule, unlike Germany, Italy, and the United States, which have granted dictatorships and are able to dispense with parliamentary wishes. Here, parliament alone is vested with the necessary machinery to carry out all intergovernmental negotiations. Herriot is at present undergoing appropriate inoculations by parliament (while awaiting his departure for the United States on Apr. 17) whereby France will assure him of immunity against wardebtitus until Roosevelt has given the French parliament his solemn promise of revision of the present, and 130 other, semi-annual war debt transfers.

Herriot is aware that he is practically doomed a second time to play the rôle of national scapegoat but he willingly faces the event, hoping at least to be able to mitigate by his own personality the inevitable rancor due to be caused by French intransigeance.

Meanwhile, Daladier has neatly frustrated Italian designs for territorial revision by subordinating the Grande Entente, or so-called "Club à Quatre" (Britain, Italy, Germany, France), to the Petite Entente (Rumania, Czechoslovakia, Yugoslavia) whenever these members are affected.

The budget has not progressed, and parliament now is off for the Easter vacation till May 2.

The spring trade revival is well on the way, with almost weekly reductions in unemployment. March indices of wholesale and retail prices show slight declines compared with last month, with the general wholesale index off 10% compared with last year, and the retail index down 15%.

Latin America

Collection rating by countries. Small worry over coffee tax.

NEWS from Latin America is no more encouraging this week.

In the first quarter report of the National Association of Credit Men, just released, countries listed as "prompt" in the collection survey include Venezuela, Panama, Mexico, and Puerto Rico. Nations rating a "fairly prompt" designation are Haiti, Argentina, Salvador, Dominican Republic, and Guatemala. Those rated as "slow" are Colombia, Costa Rica, Brazil, Cuba, Honduras, and Peru. Paraguay, Uruguay, Ecuador, Bolivia, Nicaragua, and Chile are classed as "very slow."

Brazil is more disturbed than the coffee merchants in New York over rumors that Washington will impose a tax on coffee for revenue purposes. In commenting on the effect on sales, one broker who has been in business nearly half a century said that he did not think it would make a great difference if a tax of about 3¢ were added since the consumer now pays anywhere from 3½¢ to 5½¢ for the can that each pound of coffee is delivered in and does not seem to mind.

Argentina, Brazil, and Chile are among the nations invited to participate in the "Little Economic Conference."

Far East

American products in demand on Shanghai market. Spring trade shows steady recovery. Americans exhibit at Shanghai railway engineering show.

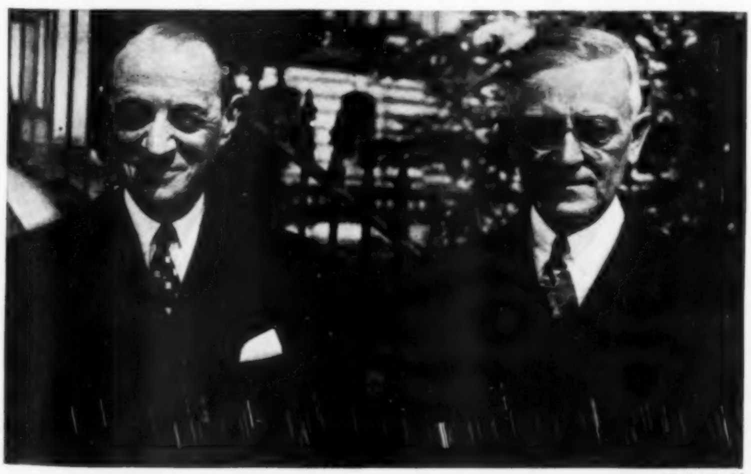
TRADE prospects in China are somewhat brighter this week. Quarter-end reports from Shanghai reveal steady improvement. Building activity is expanding. Substantial orders are being booked for all types of small merchandise from the United States, but importers are hesitant in making forward commitments because of the uncertainty of the Sino-Japanese outlook.

Import firms have benefited by the American banking holiday, which resulted in a higher silver exchange, and Chinese dealers entered rush orders for American products. Imports of American tin plate, steel sheets and bars have increased, and the prospects are good for American newsprint sales.

Winter wheat prospects are better than last year. Shanghai and North China flour mills are operating near full capacity on foreign wheat. The Hankow bean-cake industry is reviving because of the imposition of import duties on bean products from Manchukuo. Soviet oil interests are active in providing installation facilities for the increased distribution of their products in Central China.

Exhibitors at the railway engineering show in Shanghai during the first week in April included 17 American, 30 British, 27 German, 14 Swiss, and 50 Chinese manufacturers of mechanical equipment.

Both Japan and China have been invited to attend the conference in Washington preliminary to the World Economic Conference (page 5).



Wide World

TO PARIS, TO LONDON—Jesse I. Straus (left), new ambassador to France, and Robert W. Bingham, new ambassador to Great Britain. Straus is a retail (R. H. Macy, New York) executive; Bingham a (Louisville) publisher.

The Figures of the Week

Further improvements mark the major industrial lines. Commodity prices are stiffening; steel activity is rising; carloadings are expanding; currency is coming out of hiding; check volume is growing. Department store sales varied; motor sales surprised even manufacturers.

THE advent of the new Administration has shifted interest from the business arena to the political field, marking the eclipse of that good old phrase "private initiative" with all its alleged virtues and the rise of an era of government stimulation. Witness the aid extended to the banks, railroads, insurance companies, and proposed for agriculture, the mortgage holder, and the wage earner. The employment of a quarter of a million young men in forest projects marks the first step toward restoring purchasing power to the mass of consumers.

The mildly upward trend apparent in some fields of business may be laid to the usual expansion in the spring of the year. Motor makers are lifting assembly schedules to catch what trade they can when the open road beckons the would-be motorist. The coming of legal beer created a sudden demand affecting numerous lines from steel to trucks to glassware. Carloadings have risen for 3 consecutive weeks following the disturbing effect of the state and national bank holiday. Hoarded cash is returning to the banks. The stock market has finally crossed the level of the preceding year—the first since the false recovery of the spring of 1930. Commodity prices are firming as the belief in some form of inflation persists.

But March employment suffered an unseasonal relapse, as did retail sales—both phenomena undoubtedly due to the bank holiday. The country as a whole reported sales 27% below a year ago compared to a 25% decline in February. Considering that 1932 had the benefit of Easter trade, the national picture is not as unfavorable as first feared. However, the various regions present marked contrasts. New York remained unchanged at 21% below last March, while Boston receded to 33%, Cleveland to 32%, Atlanta to 31%, and San Francisco, where the added aggravation of the earthquake was felt, to 30%.

Steel activity is attempting to reach the level from which it fell after the bank holiday, and is not making a bad job of it. Whether it will succeed in surpassing the 20% of capacity production of February is difficult to forecast in view of the still nebulous state of the future of the railroads and the construction industry. The official rate for March declined to about 15%, making the first quarter's output just short of 3 million tons against 4.3 millions in 1932, a loss of 31%.

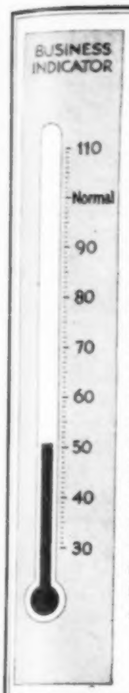
Steel's Unfilled Orders

A favorable interpretation is placed upon the very small drop of 13,198 tons in the unfilled orders of the U. S. Steel Corp. Somewhere around a 100,000-ton decline was expected. Apparently in the last half of March new orders were placed more freely, exceeding shipments. Possibly the threat of inflation plus the steadier tone of scrap and pig iron prices led consumers to doubt the wisdom of maintaining low inventories much longer.

Chevrolet and Ford are providing the greatest encouragement to the steel industry. Retail deliveries of cars during March exceeded the expectations of the most sanguine manufacturer. General

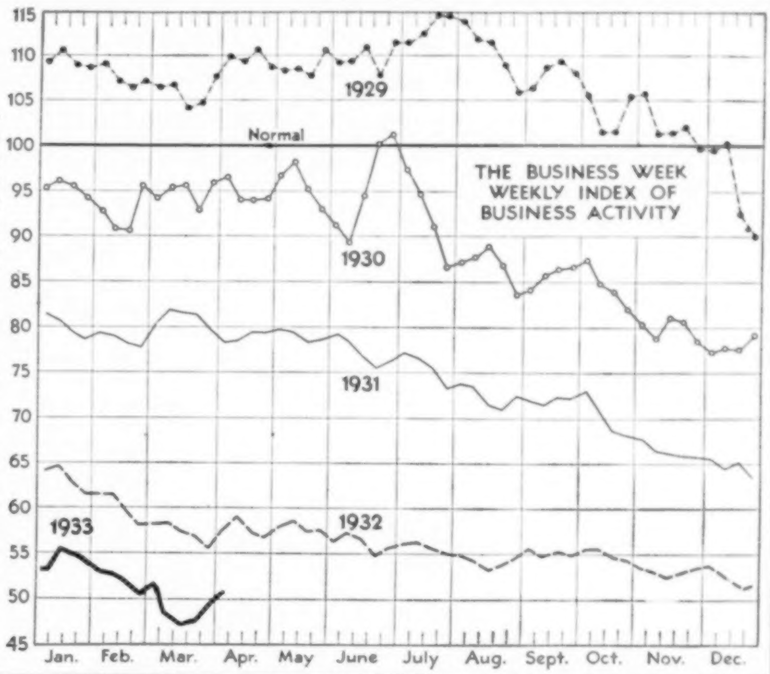
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1928-1932)*
	*50.9	†49.8	57.4	
PRODUCTION				
Steel Ingot Operation (% of capacity)	18	15	22	66
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$2,131	$2,015	$4,002	$15,516
Bituminous Coal (daily average, 1,000 tons)	*907	†851	1,028	1,340
Electric Power (millions K. W. H.)	1,399	1,402	1,465	1,501
TRADE				
Total Carloadings (daily average, 1,000 cars)	82	79	91	136
Miscellaneous and L. C. L. Carloadings (daily average, 1,000 cars)	56	53	63	94
Check Payments (outside N. Y. City, millions)(1)	$3,301	$2,593	$4,451	
Money in Circulation (daily average, millions)	$6,271	$6,376	$5,475	$4,824
PRICES *(Average for the Week)*				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.54	$.50	$.51	$.96
Cotton (middling, New York, lb.)	$.066	$.064	$.062	$.148
Iron and Steel (STEEL composite, ton)	$28.14	$28.12	$29.74	$33.70
Copper (electrolytic, f.o.b. refinery, lb.)	$.050	$.048	$.055	$.137
All Commodities (Fisher's Index, 1926 = 100)	56.2	56.4	62.5	84.8
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,570	$2,688	$1,609	$1,307
Total Loans and Investments, Federal Reserve reporting member banks (millions) (2)	$6,439	6,457	$6,455	$7,361
Commercial Loans, Federal Reserve reporting member banks (millions)(2)	1,515	1,563	$2,013	$2,419
Security Loans, Federal Reserve reporting member banks (millions)(2)	1,548	1,555	$1,979	$2,798
Brokers' Loans, New York Federal Reserve reporting member banks (millions)	$376	$371	$516	$3,169
Stock Prices (average 100 stocks, Herald-Tribune)	$83.08	$81.83	$82.76	$146.28
Bond Prices (Dow, Jones, average 40 bonds)	$73.91	$74.17	$74.04	$91.72
Interest Rates — Call Loans (daily average, renewal)	2.1%	3%	2.5%	4.6%
Interest Rates — Prime Commercial Paper (4-6 months)	2¼-3½%	2¼-3½%	3¼-3½%	4%
Business Failures (Dun & Bradstreet, number)	418	437	607	513

***Preliminary** **†Revised** **(1) 255 cities** **(2) New York City member banks only.**



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



motors sales to consumers during March gained 12% over February. The first quarter lagged 2% behind 1932.

Motor production during March, excluding Ford, is estimated by the National Automobile Chamber of Commerce at 81,370 cars against 93,402 in February. Employment at Detroit on Mar. 31 rose to 41.8 from 33.5 on Mar. 15. *Iron Age* forecasts April production at near 125,000 units.

Michigan Situation Improved

The banking situation in Michigan is slowly improving with a large per cent of deposits freed. The working capital of hundreds of small firms was tied up during the protracted negotiations in Detroit, causing serious handicaps. One count early in April places 172 Michigan banks in the hands of conservators and 210 open. Check payments in Detroit for the week ending April 5 rose to nearly $20 millions compared with $7.9 millions the preceding week. The week before the state holiday, checks exceeded $88 millions.

A 25,549-ton rail order placed by the Erie railroad for delivery from now until July will enable the Carnegie mill at Pittsburgh to reopen, since it received about two thirds of the tonnage. Otherwise, rail buying remains quiet. *Steel* estimates that rail purchases for the 15-year period ending 1930 averaged 2.5 million tons annually. In 1932, this dropped to ½ million tons, and so far in 1933 the volume has been negligible.

The gain in residential construction during March compared to February was incorrectly reported last week. The improvement actually amounted to the surprising figure of 35.7%, a record far exceeding other branches of the industry. During the first quarter of 1933, residential contracts awarded totaled $39.8 millions compared with $85.1 millions in 1932, a decline of 53.3%.

Non-residential building projects aggregated $78.8 millions against $118.8 millions in the first 3 months of 1932, a decline of 33.7%, while the volume of public works and utility awards were valued at $77.5 millions compared with $82.2 millions, a loss of only 5.7%. The total of all construction projects during the first quarter amounted to $196 millions against $286 millions in 1932, a 31.5% drop.

Seasonal Contraction in Power

Power production continues to contract, as is to be expected when the days are lengthening. But the decline is at a slower rate than a year ago, so that the week ending Apr. 8 came within 4.5% of last year's level, the best showing since January.

During February, domestic consumption of electricity was further curtailed, widening the gap from 1932 to 4.5% compared with 3.7% in January. November 1932 marked the first month in which domestic consumption failed to show a gain over the same month of the preceding year. Large commercial users also restricted their use of current, the breach from 1932 expanding to 14.9% as against 10.9% in January.

Carloadings for the week ending Apr. 1 reached the highest volume since Feb. 18. The week brings 1933 within 9.2% of last year, the narrowest spread this year.

Optimism colors the regular quarterly report of the Shippers' Advisory Boards for the second quarter of 1933. Though actual loadings during the first 3 months of the year lagged 15% behind the same period of 1932, these gentlemen anticipate that the next 3 months will practically close the gap.

Check Payments

Check payments for the 140 cities outside of New York are still not tabulated, though the trend in some 255 centers probably reflects the situation for the country as a whole. For the week ending Apr. 5, a 27.3% gain occurred; in New York City alone a 30% gain.

Commercial loans of reporting member banks are not available for the 102 leading cities which we usually carry in our table. We have substituted, for the time being, the data of the New York City reporting member banks. The picture is probably more favorable than that in the country as a whole, because News York City suffered less of a holiday aftermath. Commercial loans, which stood at $1,878 millions on Feb. 1, declined to $1,515 millions by Apr. 5.

Commodity prices were generally higher. Moody's daily average of 15 leading staples reached the high of the year on Apr. 11. The surprisingly low estimate of winter wheat as of Apr. 1 boosted wheat prices. May wheat that closed at 54¼¢ a bushel on Apr. 1 rose to 59⅞¢ by Apr. 11. Hogs and corn fluctuated irregularly, as did sugar, but other major commodities were marked up, probably a reflection of the feeling that inflation of some type is coming.

The Financial Markets

Wall Street gropes for Washington's plans. Roosevelt's voice is the voice of inflation, but his acts are the acts of deflation. Commodities lead stocks to higher levels, but bonds are diffident.

Money

Spurred on by a variety of conflicting forces, the financial markets have hopped and halted, skipped and stood still, jumped and retreated, depending upon what mood happened to be uppermost. Wall Street has been trying to feel out Washington and is puzzled. The voice of Washington is inflation, but the acts are acts of deflation.

The romanticists who operate in the silver market offer a typical example of the Street's current reactions. Their hopes have risen and fallen with rhythmic regularity. Last week Congressional leaders said there seemed to be little in sight for the metal at this time, and so great was their gloom that not even a great rally in all other commodities and in securities could stimulate interest. The price drifted dejectedly to lower levels. But now comes Secretary Hull who lets it be known that silver might be discussed with the international visitors, and the market roars along as though some kind of action had already been taken. The silver crowd never goes half way.

Or take wheat. When the operators get out their pencils and make a mathematical connection between consumption and supply, they promptly settle down to despair even though the winter wheat crop may show a decline of 20% from the 5-year average. But when they dream of the delectable consequences of farm allotment, or inflation, the price of wheat soars. In 3 weeks wheat has risen more than 10¢ a bushel. Speculators who bought a contract of 5,000 bushels before the bank holiday have a $500 profit, at least until they try to sell it.

The statements of the Federal Reserve banks give the cold figures of the continued deflation. Gold reserves are increasing but that is an old story. Those wise in the ways of gold know that, with modern central banking technique in impounding gold, an increase in gold holdings does not mean, as it once did, an increase of money in circulation. All other items in the Federal Reserve bank statement belie any inflationary tendencies. In fact, credit is decreasing sharply and rapidly. Loans that member banks find it necessary to make at the Federal Reserve have gone to a new post-bank holiday low. Open-market operations of the Reserve have ceased, as far as government securities are concerned, and fewer bills are being bought in the open market. Federal Reserve notes in actual circulation are declining and so are member bank deposits.

The Federal Reserve system, of course, merely reflects the drastic deflation that is going on among the member banks, and which is drying up industry and agriculture. Total loans of member banks in the New York district, typical of the country, are now lowest on record, with more than half of them made on securities.

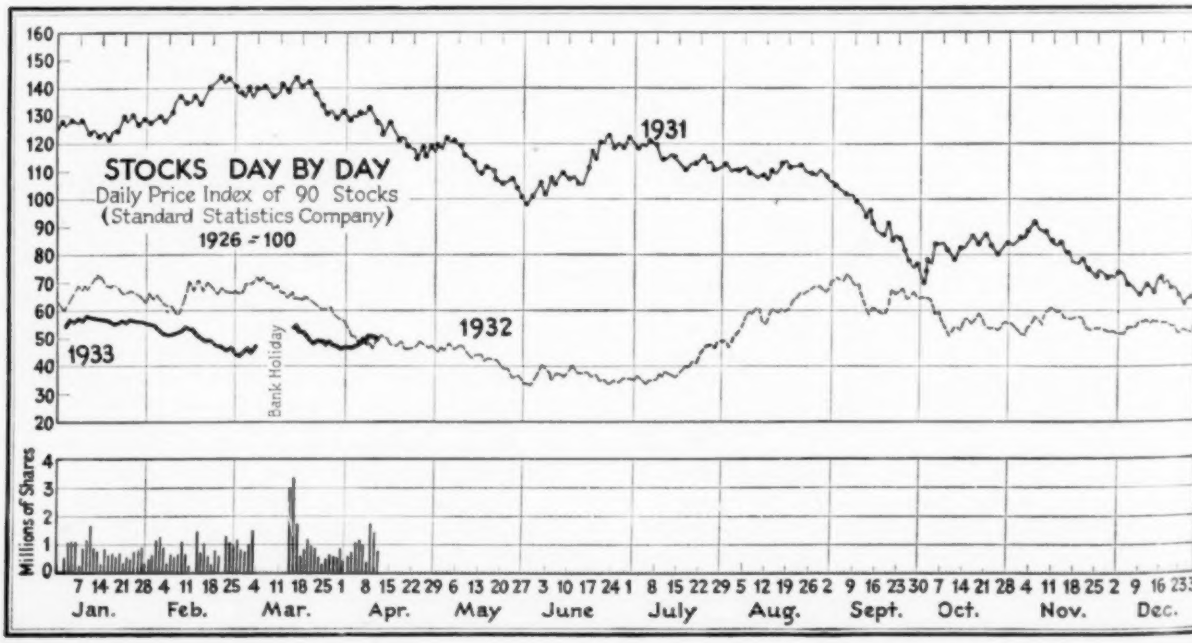
The easy money policy continues unabated. The Federal Reserve bank of New York has dropped its rediscount rate. Call money on the New York Stock Exchange is quoted at 1½%, but is being supplied in the outside market at 1%. Time money for 60 days is being offered at ¾%. Other rates are similarly depressed.

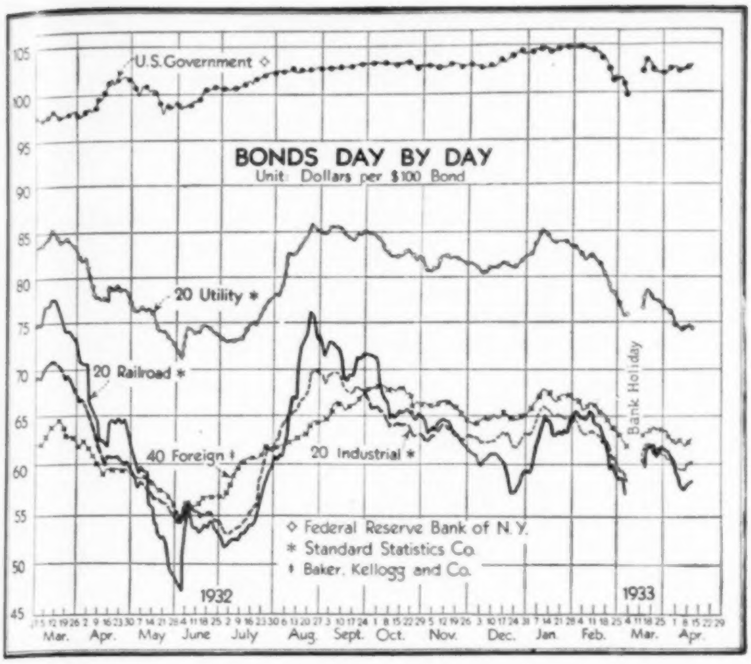
Wall Street diagnosticians on foreign exchange who have hitherto explained the unusual strength of the dollar by an alleged short interest compelling continued dollar purchases, are now hard put to interpret the weakness of the pound sterling. But, though Wall Street may be short of facts, it is always long on explanations. The pound sterling is being sold, it says, by French interests who are long and who are trying to liquidate.

But, in the main, Wall Street has its ear to the ground listening to inflation whispers from Washington. The soothsayers, to whom it used to turn so eagerly, whose complex formulas, adjusted to seasonal and cyclical variations, once held it spellbound are now shoved aside in favor of experts who can read the minds of the Senate, of Congress, of the Administration, or of all three.

Stocks

Acting on "inside information from Washington" that a cheaper dollar is just around the corner, the stock market has





been giving a public and unashamed exhibition of confidence in securities. Commodity markets had already corroborated the news.

Efforts of Washington, looking toward unemployment and the rebuilding of foreign commerce, were some of the milder political developments that made for gains which were heartening to security holders. Time was when stock prices responded to what was called a balanced budget. But apparently traders on the floor have made up their minds that the connection betw.en a balanced budget and business prosperity is as tenuous as that between sun spots and crop failures. Now, reports from Washington of ambitious public works programs arouse special interest and shares of companies that may derive advantages from such projects receive the special attention of the hungry brokerage crowd eager to turn an honest dollar. The Muscle Shoals program got a big hand from dealers in shares of cement and construction industries which might be favorably affected; stirred only a mild uneasiness in the utility crowd whom it may hurt.

Financial News No Help

The advance in stocks is made in face of discouraging news. To the meeting of Bethlehem Steel stockholders, Messrs. Schwab and Grace spoke bravely of an upturn in business activity, but gave the officers a vote of thanks instead of bonus and announced, as an aside, that quarterly losses run about $5 millions. U. S. Steel announced fewer unfilled orders. General Foods cut its common dividend to 40¢, from 50¢ quarterly. There was a drop of $50,000 in the profits of the General American Tank Car Corp.

But all of this is water over the dam. The news from Washington is exciting and confidence revives.

Bonds

Now that it is well understood that the refinancing of the farm mortgages by the government will not involve huge new bond issues, this particular bugbear of the market has been definitely removed. Government bonds have strengthened considerably, partly because of the absence of unfavorable bond news and partly because of the stronger position of the banks and the rapid decline in money rates.

Utility bonds are feeling the reaction from the proposed Muscle Shoals development with its implications for utilities not directly affected by this legislation. High-grade obligations of railroads have receded sharply, because of the inflationary talk dealing especially with the devaluation of the dollar; weak railroad securities have advanced for the same reason.

Bondholders now seem to have become convinced that the clause in their bonds which calls for payment in gold dollars does not protect them from a dollar devaluation policy. On the other hand, the devaluation of the dollar makes the payment of the second-grade obligations more certain.

Foreign bonds, on the whole, show considerable strength though German bonds declined unsteadily after reports that the President of the Reichsbank had proposed draining the German central bank of its gold in order to pay its foreign short-term obligations.

THE BUSINESS WEEK

The Journal of Business News and Interpretation

APRIL 19, 1933

Without Benefit Of Greenbacks

JUST a few weeks ago, the public was engaged in a mad scramble to exchange anything it could for currency, and, in the final days before the bank holiday, to exchange money for gold. Now, the more mercurial are shifting from money into commodities and into stocks, because stocks represent equity in tangible property. For the excited rumor goes the rounds in Washington and in Wall Street that inflation is imminent. Since for most men the word "inflation" conjures up nightmares of German printing presses turning out bales of worthless paper, they feel the thing to do just now is to get rid of money before it becomes less valuable, and exchange it for things of greater permanence.

Speculators may well be right in their guess that prices will rise and wrong about the reason. Certainly if they expect immediate currency inflation, they misread the signs.

We pointed out last week that the Administration had not yet attacked the one great central problem of business recovery. We remarked that the program up to that time had been deflationary, and that constructive plans had yet to be developed. Since then, a press conference at the White House developed the fact that the Administration holds exactly that view of the situation.

The Administration will not rest content with clearing up wreckage and softening hardships; it will formulate and enact a program for business revival. That it will be bold we have no doubt; the farm bill is evidence enough that the Administration is not afraid to experiment. Certainly, any plan for recovery that has any chance of success must be bold; the timid, piecemeal efforts have all been futile.

This is inflation, if you like, in the sense that it is the reverse of deflation. But it is no fiat money inflation, nor does it inevitably involve the devaluation of the dollar. Probabilities are strong against any change in the basis of the currency despite the strong agricultural lobby which is pressing for some such step.

There are good reasons for this conclusion. In the first place, devaluation of the dollar will not do the job. We have metal enough now to permit a huge expansion of currency issue. Indeed we already have seen the currency expand $2 billions or so, with no effect on prices. More money does no good; what we need is circulation of money. The item "money in circulation" in the Federal Reserve statement is just bitter irony; it isn't circulating at all, that is the precise trouble. Most proposals for inflation fail at this point; they deal with the quantity of government money, whereas bank credit is much more important, and rate of turnover more important than either.

The crowning reason for concluding there will be no greenback episode is that it is totally unnecessary. Our experience in the World War demonstrated that we can have a price inflation of considerable proportions without fiat money. Prices doubled during the war period; we can have business recovery now on less than that rise.

Whatever method or combination of methods the government settles upon for expanding employment—public works on a really effective scale, stimulation of private industry through supplying government funds—can be financed by bond issues. Government credit is improving under the resolute efforts to bring current expenses down toward income. Here, then, is a tested weapon ready to hand for the war against low prices. There is no need to turn to untried or less reliable expedients.

Business recovery we must have, and in that sense, inflation. It must be brought about by government action. There is nothing in this to be terrified about.

On the contrary—let's go!

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